

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE SAN LORENZO
AUDITORÍA 2013-2014
30 DE JUNIO DE 2014**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2014

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)



TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Municipal Legislature
Municipality of San Lorenzo, Puerto Rico

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of San Lorenzo of the Commonwealth of Puerto Rico (the Municipality), as of and for the year ended June 30, 2014, which collectively comprise the Municipality's financial statements as listed in the table of contents. These financial statements are the responsibility of Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

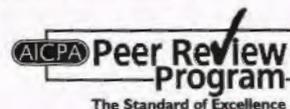
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality as of June 30, 2014 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America requires that the Management's Discussion and Analysis on pages 3 through 13 and the Budgetary Comparison Schedule of the general fund and related notes on pages 64 to 65 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements as a whole. The accompanying Financial Data Schedule - Section 8 Housing Choice Vouchers Program, as required by the U.S. Department of Housing and urban Development, on pages 66 to 68, and the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, on pages 69 through 71, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Financial Data Schedule - Section 8 Housing Choice Vouchers Program and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Financial Data Schedule - Section 8 Housing Choice Vouchers Program and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards we have also issued our report dated March 19, 2015, on our consideration of the Municipality's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Municipality's internal control over financial reporting and compliance.

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

March 19, 2015

Stamp #E156284 of the College of CPA's of
Puerto Rico is affixed to the original

The following discussion and analysis of the Autonomous Municipality of San Lorenzo of the Commonwealth of Puerto Rico (**Municipality**)'s financial performance provides an overview of the **Municipality's** financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

The government-wide financial statements report information about the **Municipality** as a whole using the economic resources measurement focus and accrual basis of accounting:

- The assets of the **Municipality**, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2014 by \$24,455,033 (net position).
- Revenues increased by (\$2,474,926) (10%) and expenses increased by \$1,729,537 (7%) in comparison with year 2013, as restated.
- Net change in net position amounted to (\$322,186), an increase of \$745,389 with respect to prior year.

Highlights for Fund Financial Statements

The fund financial statements provide detailed information about the **Municipality's** most significant funds using the current financial resources measurement focus and modified accrual basis of accounting:

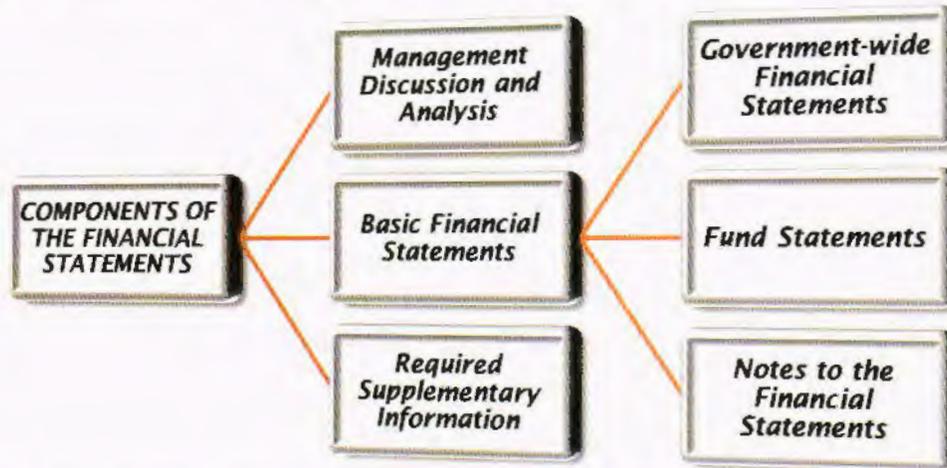
- At the close of the current fiscal year, the **Municipality's** governmental funds reported combined ending fund balances of \$3,352,696, a decrease of (\$126,772) in comparison with the prior year.
- The General Fund reported an excess of expenditures and other financing uses over revenues and other financing sources of \$311,792 and an unassigned (deficit) fund balance of (\$1,194,513). Unassigned fund balances (deficit) increased by \$2,274,292 from prior year.

General Financial Highlights

- The investment in capital assets as of June 30, 2014 was \$30,572,358 (net of related debt).
- Long-term debt general and special obligation bonds decreased to \$31,714,000, approximately 6% with respect to prior year balance.
- Other long term debts increases and net reductions from payments amounted to \$3,009,171 and \$967,901, respectively.
- On a budgetary basis, actual expenditures exceeded actual revenues and transfers by (\$259,444).

OVERVIEW OF THE FINANCIAL STATEMENTS

The **Municipality's** basic financial statements comprise three components: (1) management discussion and analysis (presented here), (2) basic financial statements, and (3) required supplementary information.



The **Municipality's** basic financial statements consist of two kinds of statements, each with a different view of the **Municipality's** finances. The government-wide financial statements provide both long-term and short-term information about the **Municipality's** overall financial status. The fund financial statements focus on major aspects of the **Municipality's** operations, reporting those operations in more detail than the government-wide statements:

Basic Financial Statements

◆ *Government-Wide Financial Statements*

The government-wide statements report information about the **Municipality** as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting.

Statement of Net Position – The *Statement of Net Position* presents information on all of the **Municipality's** assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether its financial position is improving or deteriorating. Other non-financial factors, such as the condition of the **Municipality's** roads and other infrastructure may need to be considered to assess the overall financial position of the **Municipality**.

Statement of Activities – The *Statement of Activities* presents information showing how the **Municipality's** net position changed during the year. All changes in net position (current year's revenues less expenses) are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The *Statement of Activities* is focused on both the gross and net cost of various activities (including governmental and business-type activities). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

Both of these government-wide financial statements distinguish functions of the **Municipality** that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities of the **Municipality** include general government, public works and sanitation; public safety, culture and recreation, housing, welfare, and community development and education. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 14-15 of this report.

◆ ***Fund Financial Statements***

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the **Municipality's** near-term financing requirements.

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the **Municipality's** governmental funds reported combined ending fund balances of \$3,352,696. Approximately (\$4.7) million of this isn't available for spending at the government's discretion [Unassigned Fund Balance (Deficit)]. The remainder of fund balance is restricted, committed or assigned to indicate that is not available for new spending because it has already been committed.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The governmental fund statements focus on major funds. The **Municipality's** major funds are the general fund (which accounts for the main operating activities of the **Municipality**) and funds that comply with a minimum criterion (percentage of the assets, liabilities, revenues or expenditures). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

◆ ***Notes to the Financial Statements***

Provide integral information needed to explain the basis for the numbers used within the Basic Financial Statements and provide more detailed data.

◆ ***Required Supplementary Information***

Provides additional information to better understand the financial position of the **Municipality** and contains the Budgetary Comparison Schedule for the General Fund.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Statement of Net Position

Net position (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net position for the year had an increase of 3% with respect to prior year as restated. The most significant change was a decrease of the unrestricted deficit by \$2,465,415. Also, a decrease in current debt by (\$3,429,438), due principally to the refinancing of a waste management contract debt, and last year's purchase of equipment that is not present this year.

The following Table presents a summary of the Statements of Net Position as of June 30, 2014 and 2013:

	2014	2013
Current and Non-Current Assets	\$ 8,938,651	\$ 10,420,251
Capital Assets	55,555,786	55,274,130
Total Assets	64,494,437	65,694,381
Current Liabilities	5,446,953	8,746,334
Unearned Revenues	2,213,952	2,256,414
Long-Term Liabilities	32,378,499	31,748,271
Total Liabilities	40,039,404	42,751,019
Net Position:		
Net Investment in Capital Assets	30,572,358	31,283,599
Restricted	3,626,174	3,868,677
Unrestricted (Deficit)	(9,743,499)	(12,208,914)
Total Net Position	\$ 24,455,033	\$ 22,943,362

The largest portion of the **Municipality's** net position reflects its net investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for \$30,572,358; total capital assets (\$70,949,324) less accumulated depreciation (\$15,393,538) and less any related outstanding debt (\$24,983,428) used to acquire those assets. The **Municipality** uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources, because capital assets are not generally liquidated for the purpose of retiring debt.

Restricted net position represents resources that are subject to external restrictions on how they may be used.

Unrestricted net position is the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

As of June 30, 2014 the **Municipality** presented unrestricted (deficit) net position of (\$9,743,499). This balance was affected by long term obligations such as compensated absences \$1,685,413 and other debts for the amount of \$2,924,278 for which the **Municipality** did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation.

Statement of Activities

The following Table compares the revenues and expenses for the current and previous fiscal year.

With respect to prior year, revenues increased by approximately \$2.5 million or 10%, principally on operating grants and contributions.

Expenses increased 7% or \$1.7 million in comparison with 2013. Significant increases were registered on general administration.

	2014	2013
Revenues:		
Program Revenues:		
Changes for Services	\$ -	\$ 9,455
Operating Grants and Contributions	6,384,449	4,471,699
Capital Grants and Contributions	7,172	3,075
General Revenues:		
Property Taxes	5,443,000	5,183,290
Volume of Business Taxes	2,666,327	2,867,287
Sales and Usage Taxes	1,918,635	2,024,272
Construction Excise Taxes	501,736	373,308
Intergovernmental	6,919,451	6,868,998
Other General Revenues	754,098	250,295
Donated Capital Assets	-	68,263
Total Revenues	24,594,868	22,119,942
Expenses:		
General Administration	13,485,755	12,419,338
Public Safety	796,258	967,495
Public Works	2,483,529	2,281,406
Culture and Recreation	736,148	1,111,322
Health and Sanitation	624,037	624,038
Solid Wasted Disposal	2,100,525	1,787,500
Human Services and Welfare	1,734,364	1,517,777
Urban Development	1,517,029	1,020,515
Loss on Disposition of Assets	-	27,310
Interest Costs	1,439,409	1,430,816
Total Expenses	24,917,054	23,187,517
Changes in Net Position	(322,186)	(1,067,575)
Net Position-Beginning, as Restated	24,777,219	24,010,937
Net Position-Ending	\$ 24,455,033	\$ 22,943,362

Figure 1 presents revenues comparison by sources of the governmental activities during the past two years:

FIGURE 1

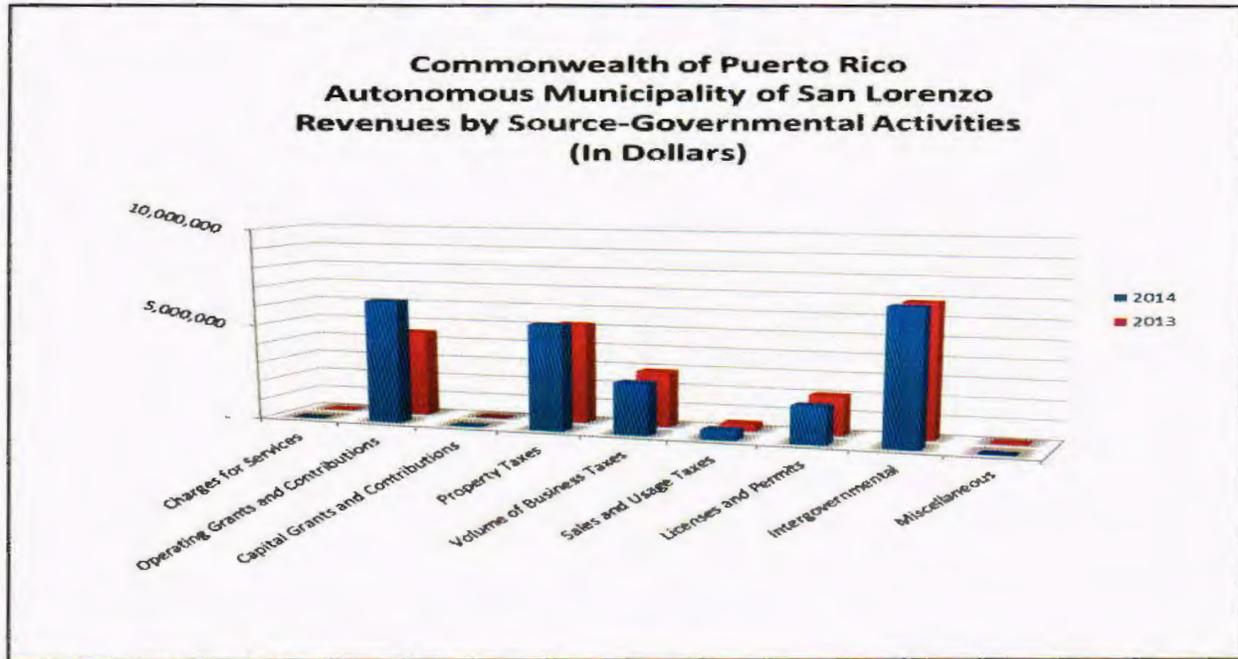
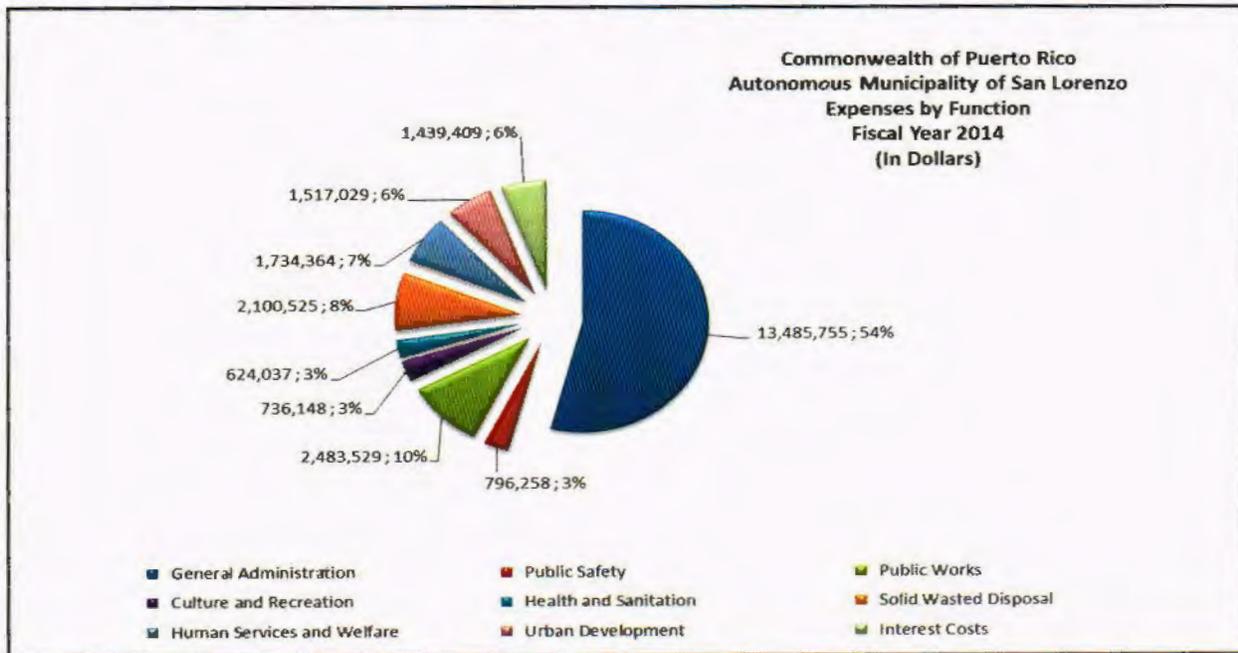


Figure 2 presents expenses by function of the governmental activities during the fiscal year 2013-2014:

FIGURE 2



Approximately 29% of the **Municipality's** revenues came from intergovernmental, 22.8% from property taxes, 26.8% from grants and contributions, and 21.4% from other sources. The **Municipality's** expenses cover a range of services. The largest expenses are general administration with 54.1%, public works with 10%, solid waste disposal with 8.4%, and human services and welfare with 7%. Program revenues of the **Municipality** covered 26% of total expenses.

The following table focuses on the cost of each of the **Municipality's** largest functions/programs as well as each

functions/program's net cost (total cost less fees generated by the programs and program-specific intergovernmental aid):

Table 3

**Commonwealth of Puerto Rico
 Autonomous Municipality of San Lorenzo
 Net Cost of Municipality's Governmental Activities
 For Fiscal Years Ended June 30,**

Functions/Programs	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
General Administration	\$ 13,485,755	\$ 12,419,338	\$ 11,165,951	\$ 9,890,926
Public Safety	796,258	967,495	796,258	967,495
Public Works	2,483,529	2,281,406	2,476,411	2,278,699
Culture and Recreation	736,148	1,111,322	736,148	1,111,322
Solid Waste Disposal	2,100,525	1,787,500	2,100,525	1,787,500
Human Services and Welfare	1,734,364	1,517,777	(985,320)	596,397
Urban Development	1,517,029	1,020,515	172,014	(11,215)
Others	2,063,446	2,054,854	2,063,446	2,082,164
Total	\$ 24,917,054	\$ 23,160,207	\$ 18,525,433	\$ 18,703,288

Some of the cost of governmental activities in 2014 was paid from other governments and organizations that subsidized certain programs with grants and contributions (\$6,384,449). Other general revenues including property, volume of business, sales and usage, construction excise taxes, and intergovernmental revenues substantially covered the \$18,525,433 net cost of services.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent. The following table presents a comparison of the 2014 and 2013 fund balances.

Table 4

**Commonwealth of Puerto Rico
 Autonomous Municipality of San Lorenzo
 Fund Balance
 As of June 30,**

	2014	2013
Fund Balances:		
Nonexpendable	\$ -	\$ -
Restricted	8,012,813	7,581,780
Committed	-	-
Assigned	6,122	-
Unassigned (Deficit)	(4,666,239)	(6,197,158)
Total	\$ 3,352,696	\$ 1,384,622

At the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$3.3 million. Of this amount (\$4,666,239) isn't available for spending at the government's discretion (Unassigned Fund Balance). The remainder of fund balance is restricted, committed or assigned to indicate that is not available for new spending because it has already been committed. For the fiscal year ended June 30, 2014, the governmental funds reported a net increase of \$1,968,074 in fund balances million in comparison with the current year. This increase was due primarily to a decrease in unassigned fund balance (deficit) from the General Fund due to economies in solid waste disposal.

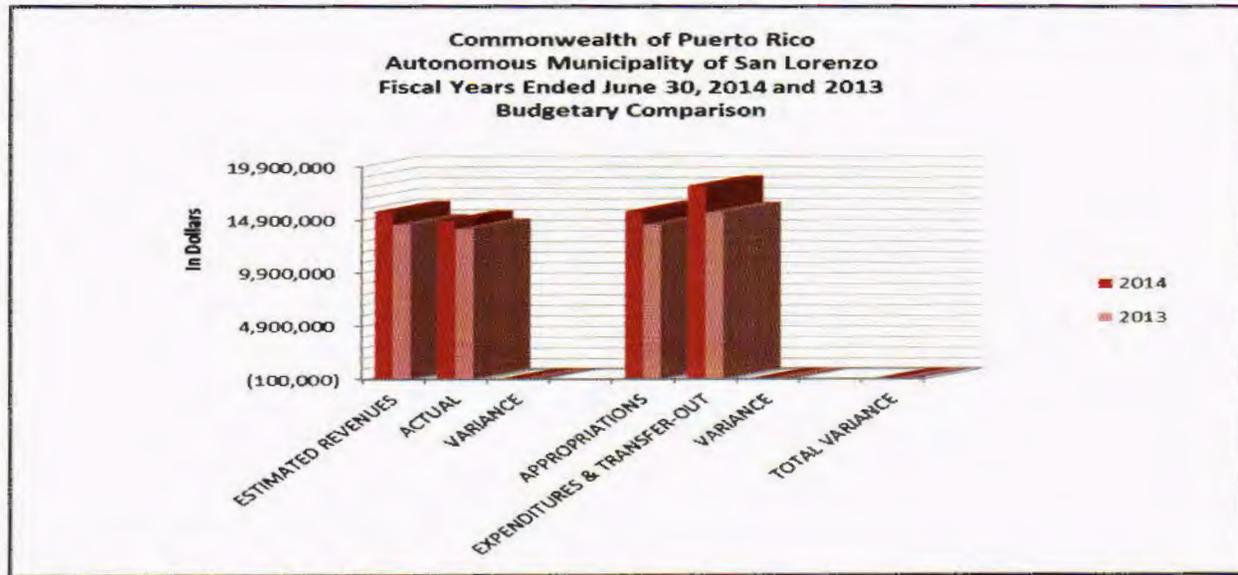
The general fund is the operating fund of the Municipality. Unassigned fund balance (deficit) of the general fund represents approximately 100% of total ending general fund balance.

Description	2014	2013
Revenues:		
Property Taxes	\$ 3,339,833	\$ 3,294,574
Volume of Business Taxes	2,666,327	2,867,287
Sales and Usage Taxes	1,282,431	1,287,877
Intergovernmental	6,909,634	6,900,550
Construction Excise Taxes	501,736	373,308
Miscellaneous	754,098	240,840
Total Revenues	15,454,059	14,964,436
Expenditures:		
General Government	10,919,586	11,275,142
Public Safety	462,444	777,616
Public Work	2,064,795	2,022,134
Culture and Recreation	602,153	984,737
Health and Sanitation	624,037	624,038
Solid Waste Disposal	138,025	1,787,500
Human Services and Welfare	151,450	240,826
Urban Development	-	-
Capital Outlay	210,877	856,772
Total Expenditures	15,173,367	18,568,765
Net Transfer In (Out)	(193,900)	119,518
Proceed of Notes	225,000	3,015,000
Net Decrease in Fund Balance	\$ 311,792	\$ (469,811)

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2013-2014 presented a material difference with respect to prior year budget with a decrease of \$3,091,070. The Municipality does not include an amendment to the budget the positive and negative changes on other revenues, principally in construction excise taxes (\$702,989) due to some construction projects that where supposed to produce significant revenues but did not come to fruition during the year, volume of business taxes of (\$804,326), and \$954,031 from intergovernmental revenues. Budget expenditures were amended during the year in accordance with functions estimates (see Figure 3 below).

FIGURE 3



The negative variance of (\$259,444) between revised budget and actual results was due mainly to a decrease in revenues as explained in the preceding paragraph during the year. The **Municipality** reported more expenditures than appropriations in those functions for payments to purchase of supplies, professional and nonprofessional services.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the **Municipality** has invested \$55,555,786 (net of accumulated depreciation) in a broad range of capital assets, including buildings, land, infrastructure, construction in progress and equipment. This amount represents a net increase of \$281,656 or 1% from the prior year.

The **Municipality** invested a total of \$2,221,699 of capital assets during the fiscal year 2013-2014 as follows:

- Construction in Progress – \$1,229,934
- Acquisition of Land (Capital Contribution) – \$380,684
- Acquisition of Machinery and Equipment – \$320,611
- Acquisition of Motor Vehicles – \$140,470
- Buildings - \$146,000

Table 6

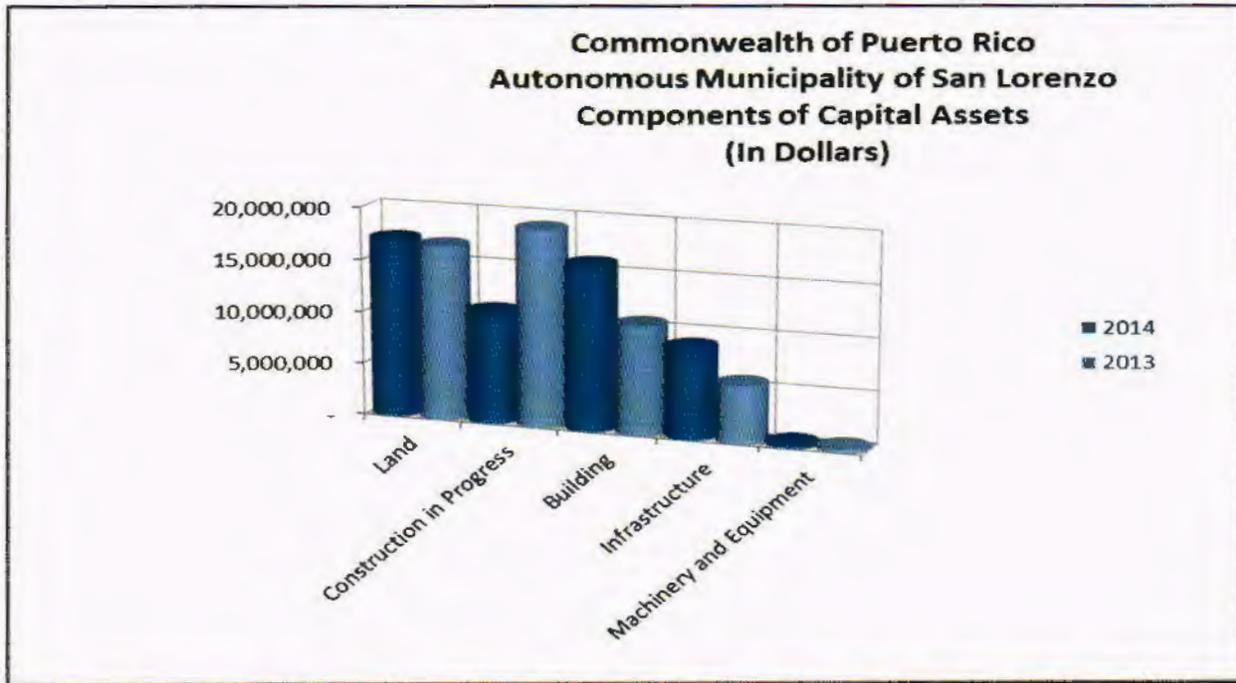
Commonwealth of Puerto Rico
 Autonomous Municipality of San Lorenzo
 Capital Assets, Net
 As of June 30,

	Governmental Activities	
	2014	2013
Non-depreciable assets:		
Land	\$ 17,088,075	\$ 16,707,391
Construction in Progress	10,750,539	18,889,620
Depreciable assets:		
Buildings	15,886,209	10,483,145
Infrastructure	8,748,684	5,561,845
Machinery and Equipment	408,457	351,526
Motor Vehicles	2,673,822	3,280,603
Total	\$ 55,555,786	\$ 55,274,130

Other projects related to repair and maintenance of roads (not capitalized) were developed during the year 2014. Construction in progress had a reclassification of \$9,108,026 from parks, buildings, and infrastructure like sidewalks and drains, bridges, projects that were completed this year.

Figures 4 below presents the components of capital assets during the fiscal years 2014 and 2013:

FIGURE 4



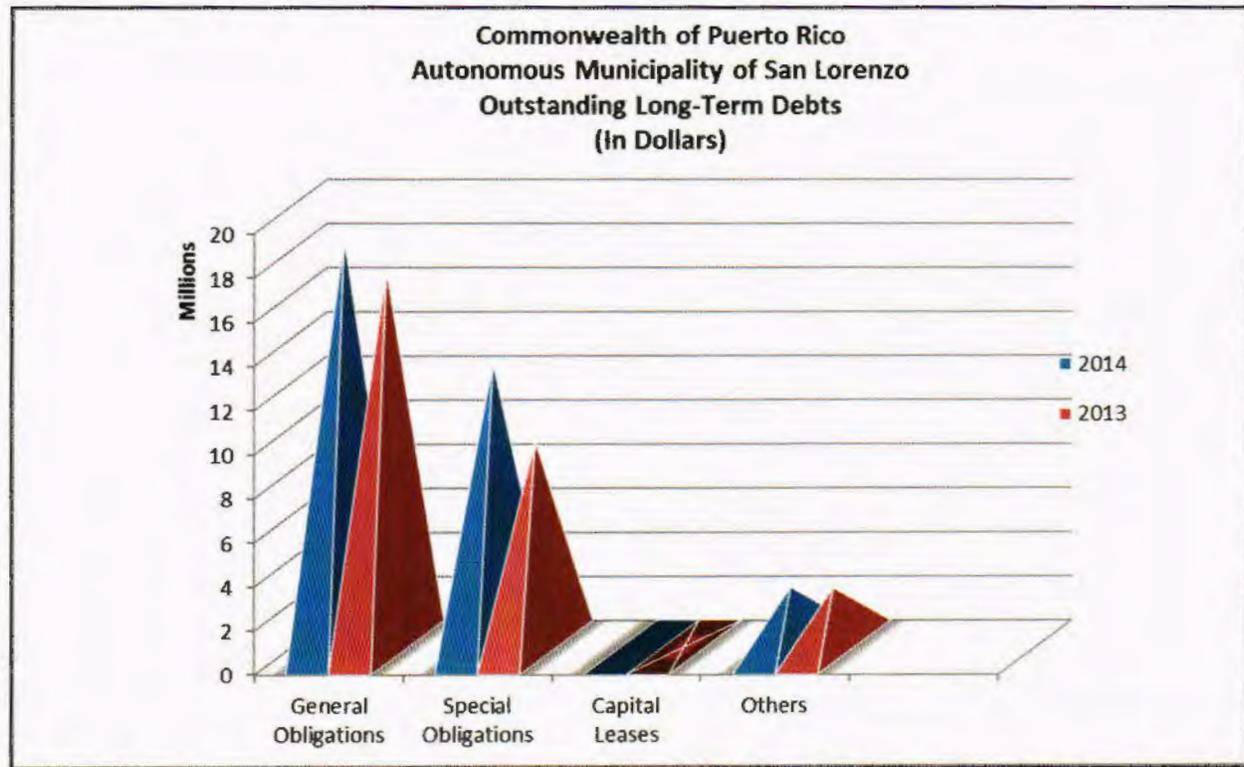
Long-Term Debts

At year-end, the **Municipality** had \$36,323,691 in general and special obligations, an increase of 1% with respect to prior year due to the issuance of \$1.9 million of a waste disposal contract debt. The following is a summary of the **Municipality's** outstanding debts as of June 30, 2014 and 2013:

	Governmental Activities	
	2014	2013
General and Special Obligations	\$ 31,714,000	\$ 33,503,000
Law No. 42-MRCC	534,460	549,596
Law No. 146-MRCC	223,518	235,934
Christmas Bonus	203,800	184,166
Deferred Charges	-	-
Waste Management	1,962,500	-
Compensated Absences	1,685,413	1,598,725
Total	\$ 36,323,691	\$ 36,071,421

Figure 5 presents the components of long-term debts during the fiscal year 2014 and 2013:

FIGURE 5



More detailed information about the **Municipality's** long-term liabilities is presented in Notes 9 and 10 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The **Municipality's** selected and appointed officials considered many factors when setting the fiscal year 2013-2014 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The **Municipality's** unemployment rate now stands at 14.7%, which compares with the Commonwealth rate of 13.1%.

The **Municipality** applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2014 are \$14.3 million, approximately \$1.1 million less than fiscal year 2014. The **Municipality** expects a decrease of revenues in construction excise taxes. Budgeted expenditures are expected to stabilize accordingly to the projected revenues.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This report is designed to provide a general overview of the **Municipality's** finances and to demonstrate the accountability for the money it receives. If you have any questions about this report or need additional information, contact the **Municipality's** Finance Department at (787) 736-3511, or PO Box 1289, San Lorenzo, PR 00754.

COMMONWEALTH OF PUERTO RICO
 AUTONOMOUS MUNICIPALITY OF SAN LORENZO

STATEMENT OF NET POSITION

JUNE 30, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	
Cash and Investments	\$ 2,352,733
Cash with Fiscal Agent	5,567,783
Receivables (net):	
Property Taxes	26,811
Sales and Usage Taxes	98,169
Due from Governmental Units	101,900
Federal Grants	641,970
Other Receivables	<u>149,285</u>
Capital Assets:	
Land, Improvement and Construction in Progress	27,838,614
Other Capital Assets (Net of Depreciation)	<u>27,717,172</u>
Total Capital Assets	<u>55,555,786</u>
TOTAL ASSETS	<u>64,494,437</u>
LIABILITIES:	
Accounts Payable and Accrued Expenses	850,621
Accrued Interest	595,482
Due to Governmental Units	55,658
Unearned Revenues - Volume of Business Taxes	2,213,952
Noncurrent Liabilities:	
Due Within One Year	3,945,192
Due in More than One Year	<u>32,378,499</u>
TOTAL LIABILITIES	<u>40,039,404</u>
NET POSITION:	
Net Investment in Capital Assets	30,572,358
Restricted for:	
Capital Projects	86,143
Debt Service	3,282,989
Community Development Projects	257,042
Unrestricted (Deficit)	<u>(9,743,499)</u>
TOTAL NET POSITION	<u>\$ 24,455,033</u>

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
 AUTONOMOUS MUNICIPALITY OF SAN LORENZO
 STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Mayor and Municipal Legislature	\$ 1,735,394	\$ -	\$ -	\$ -	\$ (1,735,394)
General Government	11,750,361	-	2,319,804	-	(9,430,557)
Public Safety	796,258	-	-	-	(796,258)
Public Works	2,483,529	-	-	7,118	(2,476,411)
Culture and Recreation	736,148	-	-	-	(736,148)
Health and Sanitation	624,037	-	-	-	(624,037)
Solid Waste Disposal	2,100,525	-	-	-	(2,100,525)
Human Services and Welfare	1,734,364	-	2,719,684	-	985,320
Urban Development	1,517,029	-	1,344,961	54	(172,014)
Interest on Long-Term Debt	1,439,409	-	-	-	(1,439,409)
Total Governmental Activities	\$ 24,917,054	\$ -	\$ 6,384,449	\$ 7,172	(18,525,433)
General Revenues:					
Taxes:					
Property Taxes, levied for General Purposes					3,339,833
Property Taxes, levied for Debt Service					2,103,167
Volume of Business Taxes					2,666,327
Sales and Usage Taxes					1,918,635
Construction Excise Taxes					501,736
Intergovernmental					6,919,451
Rent					72,300
Miscellaneous					681,798
Total General Revenues					18,203,247
CHANGES IN NET POSITION					
					(322,186)
Net Position – Beginning of Year, As Restated					24,777,219
NET POSITION – ENDING OF YEAR					\$ 24,455,033

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF SAN LORENZO

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2014

	GENERAL FUND	ACTIVITIES CENTER FUND	DEBT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash	\$ 225,179	\$ 1,431,438	\$ -	\$ 696,118	\$ 2,352,733
Cash with Fiscal Agent	-	-	3,851,660	1,716,123	5,567,783
Receivables:					
Property Taxes	-	-	26,811	-	26,811
Sales and Usage Taxes	98,169	-	-	-	98,169
Due from Governmental Units	101,900	-	-	641,970	743,870
Federal Grants	-	-	-	149,285	149,285
Due from Other Funds	1,478,957	299,009	-	8,585	1,786,551
Total Assets	\$ 1,904,205	\$ 1,730,445	\$ 3,878,471	\$ 3,212,081	\$ 10,725,202
LIABILITIES:					
Account Payable	\$ 566,028	\$ -	\$ -	\$ 284,593	\$ 850,621
Bond and Notes	-	-	1,470,000	-	1,470,000
Accrued Interest	-	-	595,482	-	595,482
Due to Governmental Units	55,658	-	-	-	55,658
Due to Other Funds	161,180	8,585	-	1,616,786	1,786,551
Unearned Revenues - Volume of Business Taxes	2,213,952	-	-	-	2,213,952
Total Liabilities	2,996,818	8,585	2,065,482	1,901,379	6,972,264
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenues - Commonwealth of Puerto Rico	101,900	-	-	-	101,900
Unavailable Revenues - Federal Grants	-	-	-	298,342	298,342
Total Deferred Inflows of Resources	101,900	-	-	298,342	400,242
FUND BALANCES (DEFICITS):					
Restricted	-	1,721,860	1,812,989	4,477,964	8,012,813
Committed	-	-	-	-	-
Assigned	-	-	-	6,122	6,122
Unassigned (Deficit)	(1,194,513)	-	-	(3,471,726)	(4,666,239)
Total Fund Balances	(1,194,513)	1,721,860	1,812,989	1,012,360	3,352,696
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)	\$ 1,904,205	\$ 1,730,445	\$ 3,878,471	\$ 3,212,081	\$ 10,725,202

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
 AUTONOMOUS MUNICIPALITY OF SAN LORENZO
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION

JUNE 30, 2014

Total Fund Balances – Government Funds (Page 16)	\$ 3,352,696
Amount reported for Governmental Activities in the Statement of Net Position (Page 14)	
are different because:	
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:	
Non Depreciable Capital Assets	\$ 27,838,614
Depreciable Capital Assets	43,110,710
Accumulated Depreciation	<u>(15,393,538)</u>
Total Capital Assets	55,555,786
Some of the Municipality's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are unavailable in the funds:	
CDBG	257,042
Child and Adult Care Food Program	41,300
Christmas Bonus	<u>101,900</u>
Total Unavailable Revenues	400,242
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General and Special Obligation Bonds	(30,244,000)
Christmas Bonus	(203,800)
Law Number 146-MRCC	(223,518)
Law Number 42-MRCC	(534,460)
Con Waste Debt	(1,962,500)
Compensated Absences	<u>(1,685,413)</u>
Total Long-Term Liabilities	<u>(34,853,691)</u>
Total Net Position of Governmental Activities (Page 14)	\$ 24,455,033

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
 AUTONOMOUS MUNICIPALITY OF SAN LORENZO
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	GENERAL FUND	ACTIVITIES CENTER FUND	DEBT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Property Taxes	\$ 3,339,833	\$ -	\$ 2,103,167	\$ -	\$ 5,443,000
Volume of Business Taxes	2,666,327	-	-	-	2,666,327
Sales and Usage Taxes	1,282,431	-	636,204	-	1,918,635
Federal Grants	-	-	-	4,459,251	4,459,251
Intergovernmental	6,909,634	-	-	2,319,858	9,229,492
Construction Excise Taxes	501,736	-	-	-	501,736
Rent	72,300	-	-	-	72,300
Miscellaneous	681,798	7,118	-	-	688,916
Total Revenues	15,454,059	7,118	2,739,371	6,779,109	24,979,657
EXPENDITURES:					
Current:					
Mayor and Municipal Legislature	1,232,913	-	-	-	1,232,913
General Government	9,686,673	-	-	1,852,752	11,539,425
Public Safety	462,444	-	-	132,822	595,266
Public Works	2,064,795	-	-	-	2,064,795
Culture and Recreation	602,153	-	-	-	602,153
Health and Sanitation	624,037	-	-	-	624,037
Solid Waste Disposal	138,025	-	-	-	138,025
Human Services and Welfare	151,450	-	-	1,365,172	1,516,622
Urban Development	-	-	-	1,416,533	1,416,533
Capital Outlay	210,877	-	-	2,010,822	2,221,699
Debt Service:					
Bond Issuance Costs	-	-	-	-	-
Principal	-	-	1,940,552	-	1,940,552
Interest and Other Charges	-	-	1,439,409	-	1,439,409
Total Expenditures	15,173,367	-	3,379,961	6,778,101	25,331,429
EXCESS OF REVENUES OVER (UNDER)					
EXPENDITURES	280,692	7,118	(640,590)	1,008	(351,772)
OTHER FINANCING SOURCES (USES):					
Proceed of Bonds	225,000	-	-	-	225,000
Transfers - In	4,997	234,500	811,277	-	1,050,774
Transfers - Out	(198,897)	(612,380)	-	(239,497)	(1,050,774)
Total Other Financing Sources (Uses)	31,100	(377,880)	811,277	(239,497)	225,000
Net Change in Fund Balances	311,792	(370,762)	170,687	(238,489)	(126,772)
Fund Balances (Deficit) - Beginning, as Restated	(1,506,305)	2,092,622	1,642,302	1,250,849	3,479,468
FUND BALANCES (DEFICIT) - ENDING	\$ (1,194,513)	\$ 1,721,860	\$ 1,812,989	\$ 1,012,360	\$ 3,352,696

O. Lopez
 12/04/2015

COMMONWEALTH OF PUERTO RICO
 AUTONOMOUS MUNICIPALITY OF SAN LORENZO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Net Change in Fund Balances – Government Funds (Page 18)	\$ (126,772)
Amount reported for Governmental Activities in the Statement of Activities (Page 15) are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:	
Capital Outlays	\$ 2,221,699
Depreciation Expense	<u>(1,674,936)</u>
Excess of Capital Outlays over Depreciation Expense	546,763
Revenues in the Statement of Activities that do not provide current financial resources are reported as revenues in the funds and vice versa:	
Christmas Bonus	9,817
Community Development Block Grant	(306,072)
Child and Adult Care Food Program	<u>(88,534)</u>
Total of Revenues	(384,789)
Donations of capital assets increase net assets in the Statement of Activities, but do not appear in the governmental funds because they are not financial resources.	
Governmental funds only report the proceeds received in the disposal of asset. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the cost of the disposed asset	
	(4,118)
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increase Noncurrent Liabilities in the Statement of Net Position. In the current period, proceeds received was	
	(225,000)
Repayment of long-term principal is expenditure in the governmental funds, but issuing debt reduced Noncurrent Liabilities in the Statement of Net Position. In the current period repayments were	
	1,940,552
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:	
Increase in Christmas Bonus	(19,634)
Increase in Debt Con Waste	(1,962,500)
Increase in Compensated Absence	<u>(86,688)</u>
Total Additional Expenses	<u>(2,068,822)</u>
Change in Net Position of Governmental Activities (Page 15)	\$ (322,186)

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

1. FINANCIAL REPORTING ENTITY

The accompanying financial statements present information on the financial activities of the Autonomous Municipality of San Lorenzo of the Commonwealth of Puerto Rico (Municipality) over which the Mayor and the Municipal Legislature, have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

A. Organization

The Municipality was founded in the year 1811, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The Municipality provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services. As a government entity, the Municipality is exempt from both federal and state taxes.

B. Reporting Entity

A reporting entity is comprised of (1) the primary government, (2) component unit organizations for which the primary government is financial accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. GASB Accounting Standards Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure*, requires the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

GASB Accounting Standards Codification Section 2100, *Defining the Financial Reporting Entity*, describes the criteria for determining which organizations, functions, and activities should be considered part of the Municipality for financial reporting purposes. The primary criteria include appointing a voting majority of an organization's governing body, and the Municipality's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality. A second criteria used in evaluating potential component units is if the nature and significance of the relationship between the organization and a primary government are such that to exclude the organization from the financial reporting entity would render the financial statements misleading or incomplete.

A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

1. FINANCIAL REPORTING ENTITY – continuation

GASB Statement 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*, provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions; and discrete – presentation of the component unit's financial data in column separate from the Municipality's balances and transactions. The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Based on these criteria, there are no other organizations which should be included in these basic financial statements.

(1) Primary Government

A primary government consists of all organizations that make up its legal entity. Accordingly, consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

(2) Discrete Component Unit

Discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. It is financially accountable to the primary government, or has relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Municipality organized the "Corporación para el Desarrollo Jugos Festival, Municipio de San Lorenzo C.D. (Corporation)", on January 26, 2010 under Article 17.003 of the Commonwealth of Puerto Rico, Law Number 81 of August 30, 1991, as amended, as a corporation for development, to continue with the production of natural juices with the trademark "Productos Festival", actually been operated by the "Organización Agricultores Barrio Espino, Inc." (OABE). At June 30, 2014, the transfers of assets, liabilities, and operations of OABE are pending to be transferred to the Corporation. Also, OABE has continually incurred in net operating loss creating a deficit exceeding its net assets by more than \$300,000, it is in default of its payments for its debts with creditors, creating an uncertainty about its' ability to continue as a going concern. Accordingly, the ability of OABE to continue as a going concern and final transfers of assets, liabilities, and operations to the Corporation is dependent on acceptance of OABE's creditors, the influx of significant financial capital and support. For these reasons, the Municipality's financial statements do not include the Corporation's financial statements as a discrete component unit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements present the respective financial position of the Governmental Activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2014, and the respective changes in financial position, and the cash flows, where applicable, thereof for the fiscal year then ended.

A. Financial Statement Presentation

The basic financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to local governmental units (GAAP). The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as Governmental Activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The financial information of the Municipality is presented in this report as follows:

Required Supplementary Information – Management's Discussion and Analysis

Management's discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.

Government-wide Financial Statements (GWFS)

While separate government-wide and fund financial statements are presented, they are interrelated. The GWFS (the *Statement of Net Position* and the *Statement of Activities*) report information of all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's Puerto Rico Electric Power Authority function of the government. Elimination of this charges would distort the direct cost and program revenue reported for the various functions concerned. Governmental Activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges to external customers for support.

The focus of the *Statement of Net Position* is designed to be similar to bottom line results for the Municipality's Governmental Activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. The *Statement of Net Position* presents the reporting entities' assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net positions are classified as net investment in capital assets, restricted when constraints are placed on them that are imposed by external parties or by laws or regulations, and unrestricted. Designations solely imposed by the Municipality's management are not presented as restricted net position.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for the different Governmental Activities of the Municipality and for each function. *Direct expenses* are those that are clearly identifiable with a specific function or segment. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. *Program Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as *general revenues*.

Governmental Funds Financial Statements (GFFS)

The GFFS [the *Balance Sheet*, and the *Statement of Revenues, Expenditures and Changes in Fund Balance*] provide information about the Municipality's funds. Separate statements for each fund category (Governmental Activities) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Non-major funds are summarized into a single column.

Each fund is a separate accounting entity with a self-balancing set of accounts used to record the financial transactions and balances of that entity. Individual funds have been established as stipulated by legal provisions or by administrative discretion. The Municipality uses fund accounting, which is designed to demonstrate legal compliance and to segregate transactions related to certain government functions or activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Municipality reports the following major governmental funds:

General Fund – This is the general operating fund of the Municipality. It is used to account for all financial resources, except those required to be accounted for in another fund.

Activities Center Fund – This is used to account for the construction of the Activities Center in San Lorenzo, Puerto Rico.

Debt Service Fund – This is used to account for the accumulation of resources for, and the payment of long-term debt principal and interests.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some operational funds currently used by the Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar operational funds have been combined into single funds in the accompanying fund financial statements.

The financial statements of the governmental funds are the following:

Balance Sheet – Reports information at June 30, 2014 about the current financial resources (assets, liabilities, deferred inflows of resources and fund balances) of each major governmental fund.

Statement of Revenues, Expenditures and Changes in Fund Balance – Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2014.

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, reconciliation is presented and separate explanation for each differences.

During the course of operations the Municipality has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the GWFS. Balances between the funds included in Governmental Activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the Governmental Activities column.

Further, certain activity occurs during the fiscal year involving transfers of resources between funds. In GFFS these amounts are reported at gross amounts as transfers in/out. While reported in GFFS, certain eliminations are made in the preparation of the GWFS. Transfers between the funds included in Governmental Activities are eliminated so that only the net amount is included as transfers in the Governmental Activities column.

The Municipality reports its financial position (*Balance Sheet*) and results of operations (*Statement of Revenues, Expenditures and Changes in Fund Balances*) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Notes to the Basic Financial Statements

The notes to the financial statements provide information that is essential to a user's full understanding of the data provided in the basis financial statements

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a *Budgetary Comparison Schedule – General Fund*, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*. Revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Municipality gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met, other than time requirements. These resources relate to a future period (when the advance is first permitted to be used in accordance with the government-mandated nonexchange transaction or a voluntary nonexchange transaction) and, therefore, should be classified as a deferred inflow of resources until such time as the resources are first permitted to be used. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

Governmental Funds Financial Statements

The GFFS are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For these purposes, the Municipality considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Revenues that the Municipality earns by incurring obligations are recognized in the same period as when the obligations are recognized. At June 30, 2014, all revenues sources met this availability criterion.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Property taxes, volume of business taxes, sales and usage taxes, construction excise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability requirements have been met, and the amount is received during the period or within the availability period for this revenue source (60 days of year-end). However, those resources not available for spending in the current period and, therefore should be classified as a deferred inflow of resources. Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Accordingly, such resources should be reported as unearned revenue in the liability section of the general fund's *Balance Sheet*. All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Principal and interest on bonds payable are recorded when they matured (when payment is due), except for principal and interest of bonds due on July 1, 2014, which are recorded as governmental fund liabilities of June 30, 2014 which is the date when resources were available in the debt service fund. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

The accompanying *Balance Sheet – Governmental Funds* generally reflects only assets that will not be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying *Balance Sheet – Governmental Funds*.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying *Statement of Activities*, but are not recorded in the accompanying GFFS.

C. Stewardship, Compliance, and Accountability

Budgetary Information

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts (Unassigned Fund Balance up to the maximum of cash available). Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be re-appropriated for expenditures in the following fiscal year.

The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

For budgetary purposes, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

The unencumbered balance of any appropriation at the end of the year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the *Budgetary Comparison Schedule – General Fund*:

Original Budget

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Office of the Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance to be effective on July 1.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying *Budgetary Comparison Schedule*, is presented on the budgetary basis to enhance comparability.

Final Budget

The final budgetary data presented in the *Budgetary Comparison Schedule – General Fund* reflects the following changes to the original budget:

1. Certain annual appropriations are budgeted on a project basis. If such projects are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, and unexpended grant appropriations, are carried forward to the following year. In certain circumstances, other regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.
2. Appropriations may be adjusted during the year with the approval of the Mayor and the Municipal Legislature, e.g. supplemental appropriations. Additionally, the Mayor is authorized to make certain transfer of surplus within the departments. Such adjustments are reflected in the final budgetary data.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Mayor is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Municipal Legislature is the department Level.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as restricted, committed and assigned fund balances under GAAP.
2. Interfund transactions of the General Fund are not included in the budgetary basis.
3. Certain accrued liabilities and other debts are not included in the budgetary basis.
4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

The Special Revenue Fund has not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily the same fiscal year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

Excess of Expenditures over Appropriations

For the year ended June 30, 2014, expenditures exceeded appropriations in the following function (the legal level of budgetary control) of the General Fund: general government by \$597,084, Public Works by \$111,160, Capital Outlays by \$22,447, and Transfer to Other Funds by \$3,543. This overspending of appropriation is authorized by law up to 5% if related to cases involving imminent public endangerment (e.g., natural disaster, or fire), which wasn't the case this year, it is considered a budgetary violation. The budgetary variance during the year present a deficiency of revenues of \$21,750 and expenditures in excess of \$237,694 for a total decrease in Budgetary Fund Balance of \$259,444. The accumulated budgetary fund balance deficit amounted to \$3,522,743.

D. Assets, Liabilities, and Net Assets

1) *Cash and Investment, and Cash with Fiscal Agent*

The Municipality's cash and investment are composed of demand deposits in commercial banks, demand deposits in the Governmental Development Bank of Puerto Rico (GDB), and cash equivalents in commercial banks. The Municipality has adopted the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the GDB as promulgated by Act No. 113 of August 3, 1995. The Finance Director of the Municipality, follow the guidelines, is responsible for investing the available resources in certificates of deposit and other short-term investments, if available. Cash in the Special Revenue and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments. Cash Equivalents are investments with an original maturity of 90 days or less.

Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund in accordance with amount invested. Cash in the Special Revenue and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments. During the fiscal year 2013-2014 any investment was realized by the Municipality.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Cash with Fiscal Agent in the Debt Service Fund represents special additional property tax collections retained by the GDB, deposit in the GDB and restricted for the payment of the Municipality's debt service, as established by law. Cash with Fiscal Agent in other governmental funds consists of undisbursed proceeds of certain bonds and notes issued for the acquisition and construction of major capital improvements, or grants which are maintained in a cash custodian account by the GDB. This sinking fund is maintained by the GDB, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

2) *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advance between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables consist of all revenues earned but not collected at June 30, 2014. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Intergovernmental receivables in the general fund represent mostly sales and usage taxes, federal grant and contributions, property tax accounts that are levied by Municipal Revenue Collection Center (MRCC), a governmental entity created by the Government. Intergovernmental receivables in the other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded grant and contributions and state appropriations, and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

3) *Inventories*

The Municipality used the purchase method to account for the purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. This method records items as expenditures, in the appropriate fund, when they are acquired and, accordingly, the inventory is not recorded in the basic financial statements.

4) *Capital Assets*

Capital assets, which include land, buildings and improvement, machinery and equipment, motor vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the GWFS. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of two years. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. The Municipality reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by Governmental Activities) the government chose to include all such items regardless of their acquisition date or amount.

The Municipality was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the GFFS to the extent the Municipality capitalization threshold is met. Depreciation and amortization expense is recorded only in the GWFS. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. No depreciation is recorded for land and construction in progress. The estimated useful lives of major capital asset categories are:

CAPITAL ASSETS	YEARS
Buildings and Site Improvements	40
Infrastructure	40
Motor Vehicles, Furniture and Fixtures	5
Machinery and Equipments	3-5

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various function/programs but reported as direct expense of the public works and urban development functions.

Impaired capital assets that will no longer be used by the Municipality, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the Municipality are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service units approach.

The Municipality is prevented legally from entering into obligations extending beyond one fiscal year, and most lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. The Municipality's lease agreements do not include contingent rental payments no escalation clauses. Accordingly, lease payments are recorded in the GWFS as expense when incurred.

In the accompanying GFFS, the lease payments are recorded as expenditures in the governmental fund.

5) **Deferred Outflows/Inflows of Resources**

In addition to assets, the *Statement of Financial Position* will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Municipality has no items that qualify for reporting in this category.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

In addition to liabilities, the *Statement of Net Position* will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Municipality has no items that qualify for reporting in this category.

The Municipality has items, which arises only under a modified accrual basis of accounting that qualifies for reporting in deferred inflows of resources. Accordingly, the items, *unavailable revenue*, is reported only in the governmental funds *Balance Sheet*. The governmental funds report *unavailable revenues* from two sources: Christmas Bonus Reimbursement from the Commonwealth and Federal Grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6) Unearned Revenues

In the GWFS, unearned revenues arise only when the Municipality receives resources before it has a legal claim to them. In the GFFS, arises when the following situations occur: potential revenue does not meet both the measurable and available criteria for revenue recognition in the current period.

7) Long-Term Obligations, Bonds Issuance Costs, and Premium or Discount

The liabilities reported in the GWFS include the general and special obligation bonds, long-term notes, other noncurrent liabilities (e.g., vacation, sick leave, claims and judgments, noncurrent liabilities to other governmental entities and third parties, and landfill post closure care costs). Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, if any. As per GASB Statement No. 65, Bond Issuance Costs incurred are reported as expense in the fiscal year incurred.

In the GFFS, governmental fund types recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Expenditures for principal and interest payments for governmental fund general and special obligations bonds are recognized in the Debt Service Fund when due.

8) Compensated Absences

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria: (1) the Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, *Compensated Absences*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective at June 30, 2014. All vacation pay is accrued when incurred in the GWFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations. Also, GFFS record expenditures when employees are paid for leave or the balance due in accrued upon the employee's separation from employment.

9) Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund when the liability is incurred. The Long-Term Liabilities includes, when appropriate, an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

10) Accounting for Pension Costs

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutory required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of GASBS No. 27, as amended, the state government of the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a multiemployer cost-sharing defined benefit pension plan and Defined Contribution Hybrid Program, in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013 (see Note 18).

11) Net Position/Fund Balance

A) Net Position

Net position represent the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide financial statements.

The GWFS utilize a net position presentation, which are categorized as follow:

- *Net Invested in Capital Assets* – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvements of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Net investment in capital assets is comprised of the following:

	<u>Governmental Activities</u>
Capital Assets, Net of Accumulated Depreciation	\$55,555,786
Outstanding Balance on Related Debt	(31,714,000)
Unspent Capital Debt Proceeds	<u>6,730,572</u>
Net Investment in Capital Assets	<u>\$30,572,358</u>

- *Restricted Net Position* – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net position often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often have constraints on resources that are imposed by management, but can be removed or modified.

Net Position Flow Assumption

Sometimes the Municipality will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the GWFS, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Municipality’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

B) *Fund Balance*

Fund Balance Classification

Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the Municipality honors constraints on the specific purposes for which amounts in those funds can be spent.

The nonspendable classification contains amounts not in spendable form or legally or contractually required to be maintained intact. Restricted amounts contain restraints on their use externally imposed by creditors, grantors, contributors, or laws or regulation of other governments; or imposed by law through constitutional provisions or enabling legislation. Committed amounts can only be used for specific purposes imposed by formal action of the Municipality’s highest level of decision-making authority. The highest level of decision-making authority is the Municipal Legislature and it takes a resolution to establish a fund balance commitment. Amounts intended to be used for specific purposes are assigned. Assignments should not cause deficits in the Unassigned Fund Balance. Unassigned Fund Balance is the residual classification for the General Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Fund Balance Flow Assumption

Sometimes the Municipality will fund outlays for a particular purpose from both restricted and unrestricted resources (the total committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the GFFS a flow assumption must be made about the order in which the resources are considered to be applied. It is the Municipality's policy to consider restricted fund balance to have been depleted before using any of the components or unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policy

The Municipality believes that sound financial management principles require that sufficient funds be retained by the Municipality to provide a stable financial base at all times. To retain this stable financial base, the Municipality needs to maintain a General Fund balance sufficient to fund all cash flows of the Municipality, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, to provide funds for the disparity in timing between the collection of property taxes and other main income. The purpose of this policy is to specify the size and composition of the Municipality's financial reserves and to identify certain requirements for replenishing any fund balance reserves utilized.

Restrictions of Fund Balance

Restrictions of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. The Municipality has implemented the provisions of the GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of July 1, 2010, in which it is required to classify and report amounts in the appropriate fund balance classification by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent.

Policy on Committing Funds

It is the policy of the Municipality that fund balance amounts will be reported as "Committed Fund Balance" only after formal action and approval by Municipal Legislature. The Municipal Legislature has the authority to separate funds for specific purposes. Any separate fund as Committed Fund Balance requires the adoption of a resolution by a simple majority of votes. The adoption of the resolution should be carried out before June 30 of the fiscal year to implement. If the actual amount of the commitment is not available through June 30, the resolution should establish the process or formula required to calculate the exact amount as soon as information is available in the following fiscal year.

For example, the Municipal Legislature may approve a motion prior to year-end financial statements, if available, up to a specified dollar amount as Committed Fund Balance for capital projects. The exact dollar amount to be reported as Committed Fund Balance for capital projects may not be known at the time of approval due to the annual financial audit not yet being completed. This amount can be determined at a later date when known and appropriately reported within the year-end financial statements due to the Municipal Legislature approving this action before year-end.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

It is the policy of the Municipality that the Municipal Legislature may commit fund balance for any reason that is consistent with the definition of Committed Fund Balance contained within GASBS 54. Examples of reasons to commit fund balance would be to display intentions to use portions of fund balance for future capital projects, stabilization funds, or to earmark special General Fund revenue streams unspent at year-end that are intended to be used for specific purposes.

After approval by the Municipal Legislature, the amount reported as Committed Fund Balance cannot be reversed without utilizing the same process required to commit the funds. Therefore, it is the policy of the Municipality that funds can only be removed from the Committed Fund Balance category after resolution and approval by the Municipal Legislature.

Policy on Assigning Funds

Funds that are *intended* to be used for a specific purpose but have not received the formal approval action at the Municipal Legislature level may be recorded as Assigned Fund Balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the Municipal Legislature. Having reviewed the requirements for assigning fund balance, therefore, is the policy of the Municipality that Mayor shall have the authority to assign fund balance of the Municipality based on the intentions of the use of funds by the Municipal Legislature. In addition, the Mayor can delegate to the Finance Director or other employee of the Municipality, the authority to assign the funds.

Policy on Unassigned General Fund Balance

It is the goal of the Municipality to achieve and maintain an Unassigned General Fund Balance equal to 15% of budgeted expenditures. The Municipality considers a balance of less than 10% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 20% as excessive. An amount in excess of 20% is to be considered for reservation to accumulate funding for the purchase of machinery and equipment, for capital projects, and/or reduces tax levy requirements, and shall be determined in conjunction with the annual budget process. In the event that the Unassigned General Fund Balance is less than the policy anticipates, the Municipality shall plan to adjust budget resources in the subsequent fiscal years to restore the balance. Appropriation from unassigned General Fund balance shall require the approval of the Municipal Legislature and shall be only for specific disbursements, such as one-time expenditures and capital asset purchases, and not for ongoing expenditures unless a viable plan designated to sustain the expenditures is simultaneously adopted. The Municipality hasn't met its GASB 54 fund balance targets at June 30, 2014.

Prioritization of Fund Balance Use

In circumstances where the payment is for a purpose that quantities are available in multiple classifications of funds balance, the order in which resources will be used shall be as follows: Restricted Fund Balance, followed by Committed Fund Balance, Assigned Fund Balance, and last but not least, Unassigned Fund Balance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

C) Components of Fund Balance

	GENERAL FUND	ACTIVITIES CENTER FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted For:					
Improvement of Streets and Sidewalks	-	-	-	1,219,959	1,219,959
Improvement and Construction of Facilities	-	1,721,860	-	2,034,951	3,756,811
Capital Outlay	-	-	-	392,712	392,712
Welfare	-	-	-	313,750	313,750
Public Safety	-	-	-	147,280	147,280
Improvement of Water and Sewer System	-	-	-	70,797	70,797
Sanitation	-	-	-	97,630	97,630
School Maintenance	-	-	-	159,125	159,125
Public Instruction	-	-	-	41,141	41,141
Culture and Recreation	-	-	-	619	619
Debt Repayment	-	-	1,812,989	-	1,812,989
Total Restricted	-	1,721,860	1,812,989	4,477,964	8,012,813
Committed	-	-	-	-	-
Assigned					
Public Instruction	-	-	-	1,187	1,187
Welfare	-	-	-	4,935	4,935
Total Assigned	-	-	-	6,122	6,122
Unassigned:	(1,194,513)	-	-	(3,471,726)	(4,666,239)
Total Fund Balances	\$ (1,194,513)	\$ 1,721,860	\$ 1,812,989	\$ 1,012,360	\$ 3,352,696

E. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. The Municipality has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Intra-Entity Transactions – There are two types of intra-entity transactions: First, the flow of resources between the primary government and its component units, and among the component units. This flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the primary government and blended component units are classified as interfund activity, as described above. Second, the intra-entity balances between the primary government and discretely presented component units that are tantamount to long-term debt financing. The primary government's liability is reported in the *Statement of Net Position*, the proceeds in the primary government's funds, and the asset in the discretely presented component units' *Statement of Net Position*. For the fiscal year there are not intra-entity transactions.

F. Risk Financing

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses with private insurance company. Also, principal officials of the Municipality are covered under various surety bonds. Cost of insurance to the Municipality for the year ended June 30, 2014 amounted to \$467,072, paid in full at the beginning of the fiscal year. The current insurance policies have not been cancelled or terminated.

The Municipality carries insurance coverage for death and bodily injuries caused by the motor vehicles accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to AACA.

The Municipality obtains workers compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2014 amounted to \$218,330.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth of Puerto Rico (DOLHR). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid to DOLHR on a cost reimbursement basis.

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

G. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the basic financial statements and the reported revenue and expenses during the reporting period. Actual result could differ from those estimates.

H. Reclassifications

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.

I. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following pronouncements that have effective dates after June 30, 2014:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

The primary government of the Commonwealth, as well as its component units and the municipalities, are considered "cost-sharing" employers of the Retirement Systems; therefore, they would report its allocated share of the Commonwealth's resulting Net Pension Liability from Statement 67 as follows:

- Based on their respective individual proportion to the collective net pension liability of all the governments participating
- The proportion should be consistent with the method used to assess contributions (percentage of payroll). The use of their respective long term expected contribution effort to Retirement Systems divided by those of all governments in the plan, is encouraged.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (FY2014-2015). Earlier application is encouraged. The Commonwealth and the Retirement Systems are in the process of evaluating the impact of this Statement on its agencies and component units and also on the municipalities of the Commonwealth. The information to adopt this Statement will be based on the new actuarial reports to be prepared under the new Statement No. 67.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 (FY 2014-2015), and should be applied on a prospective basis.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date— an amendment of GASB Statement No. 68*. This Statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. To correct this potential understatement, Statement 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions. The provisions are effective simultaneously with the provisions of Statement 68, which is required to be applied in fiscal years beginning after June 15, 2014 (FY 2014-2015).

The Municipality has not yet determined the effect these statements will have on the Municipality's basic financial statements.

3. CASH AND INVESTMENTS

Cash in Banks

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico (*Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the GDB as promulgated by Act No. 113 of August 3, 1995). The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, the Municipality invested its funds in interest bearing bank accounts, and certificates of deposit.

The Municipality follows the practice of pooling cash. At June 30, 2014, the cash are maintained in commercial banks with a balance of \$2,127,554 of which \$1,431,436 in the Activities Center Fund, and \$696,118 in Other Governmental Funds. The balance in cash account is available to meet current operating requirements and any unrestricted excess, if any, is generally invested in certificates of deposit with commercial banks. Any deficiency in the cash account is assumed by the general fund and covered through future budgetary appropriation.

3. CASH AND INVESTMENTS – continuation

Under the laws and regulations of the Government, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the Federal Deposit Insurance Corporation (FDIC) coverage. All securities pledged as collateral are held by agents designated by the Government's Secretary of the Treasury, but not in the Municipality's name.

Cash with fiscal agent in the debt service fund consists principally of property tax collections amounting to \$3,851,660 that are restricted for the payment of the Municipality's debt service, as required by law. Cash with Fiscal Agent of \$225,179 in the General Fund, and \$1,716,123 in other governmental funds consist principally of unspent proceeds of bonds that are restricted for the acquisition, construction or improvement of major capital assets and operational purposes. The amounts deposit in GDB is maintained in interest bearing accounts and is not collateralized.

Municipality follows the provisions of GASB Accounting Standards Codification Section C20, *Cash Deposit with Financial Institutions*, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2014:

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2014, the Municipality has invested only in cash in banks of \$2.1 million which are insured by the FDIC, generally up to a maximum of \$250,000. As previously mentioned, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt of equity securities were made during the Fiscal Year ended June 30, 2014. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2014.

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the Municipality will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Government adopted by GDB, the Municipality may invest in obligations of the Government, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2014, the Municipality has balances deposited in commercial banks amounting to \$2.1 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Deposits in GDB, amounting to \$5.8 million are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2014. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Therefore, the Municipality's management has concluded that at June 30, 2014, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2014, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2014, the interest risk associated with the Municipality's cash and cash equivalent is considered low.

3. CASH AND INVESTMENTS – continuation

Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2014.

4. DUE FROM GOVERNMENTAL UNITS

The due from governmental units for the fiscal year ended June 30, 2014 corresponds to \$101,900 from Puerto Rico Treasury Department for the Christmas Bonus reported in the General Fund, and \$472,639 from special laws and others reported in the Other Governmental Funds..

5. ACCOUNTS RECEIVABLE – FEDERAL GRANTS

The due from federal grants of the Other Governmental Funds for the fiscal year ended June 30, 2014 corresponds to \$294,887 from the Community Development Block Grant/States Program (SBGP) (through the Office of the Commissioner of Municipal Affairs), \$23,829 from the Child and Adult Care Food Program (through the Puerto Rico Department of Education).

6. UNEARNED REVENUES

Government-wide *Statement of Net Position* does not report *deferred inflows of resources*, but report *unearned revenues* for resources receive before it has a legal claim to them. Governmental funds *Balance Sheet* report *unearned revenues* in connection with cash collected for revenues that are not considered to be available to liquidate liabilities of the current period as follows:

Governmental Funds:	
Volume of Business Taxes	\$ 2,213,952
Total Unearned Revenues	<u>\$ 2,213,952</u>

7. DEFERRED INFLOW OF RESOURCES

Governmental funds *Balance Sheet* report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred inflows of resources* reported in the basic financial statements were as follows:

Governmental Funds:	
Christmas Bonus - Commonwealth	\$ 101,900
Federal Grants:	
Child Care	41,300
SBGP	<u>257,042</u>
Total Deferred Inflows of Resources	<u>\$ 400,242</u>

8. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

A. Interfund Receivable and Payable Balances

Due to/from Other Funds at June 30, 2014 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
Activity Center Fund	Other Major Fund	\$ 137,829
Other Major Fund	Activity Center Fund	8,585
General Fund	Other Major Fund	1,478,957
Activity Center Fund	General Fund	161,180
TOTAL		<u>\$ 1,786,551</u>

B. Interfund Transfers

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations.

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
Debt Service Fund	General Fund	\$ 198,897	Bond Principal and Interest Payments
General Fund	Other Governmental Funds	4,997	Budget Specific Project Funding
Activities Center Fund	Other Governmental Funds	234,500	Bond Principal and Interest Payments
Debt Service Fund	Activities Center Fund	612,380	Bond Principal and Interest Payments
	Total	<u>\$ 1,050,774</u>	

9. DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2014, balance due to other governmental units of the General Fund for services rendered to the Municipality (\$55,658) consists of AEELA (\$8,552), and Puerto Rico Retirement Administration (\$47,106).

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10. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2014 was as follows:

DESCRIPTION	BALANCE JULY 1, 2013	INCREASE	DECREASE	BALANCE JUNE 30, 2014
Non-Depreciable Capital Assets:				
Land	\$ 16,707,391	\$ 380,684		\$ 17,088,075
Construction in Progress	18,889,620	1,229,934	(9,369,015)	10,750,539
Total Non-Depreciable Capital Assets	<u>35,597,011</u>	<u>1,610,618</u>	<u>(9,369,015)</u>	<u>27,838,614</u>
Depreciable Capital Assets:				
Buildings	16,957,515	5,835,217	-	22,792,732
Infrastructure	7,438,172	3,418,809	-	10,856,981
Machinery and Equipment	2,528,619	320,611	(42,417)	2,806,813
Motor Vehicles	6,530,304	144,470	(20,590)	6,654,184
Total Depreciable Capital Assets	<u>33,454,610</u>	<u>9,719,107</u>	<u>(63,007)</u>	<u>43,110,710</u>
Less Accumulated Depreciation:				
Buildings	(6,474,370)	(432,153)	-	(6,906,523)
Infrastructure	(1,876,327)	(231,970)	-	(2,108,297)
Machinery and Equipment	(2,177,093)	(263,680)	42,417	(2,398,356)
Motor Vehicles	(3,249,701)	(747,133)	16,472	(3,980,362)
Total Accumulated Depreciation	<u>(13,777,491)</u>	<u>(1,674,936)</u>	<u>58,889</u>	<u>(15,393,538)</u>
Total Depreciable Capital Assets (Net)	<u>19,677,119</u>	<u>8,044,171</u>	<u>(4,118)</u>	<u>27,717,172</u>
CAPITAL ASSETS, NET	<u>\$ 55,274,130</u>	<u>\$ 9,654,789</u>	<u>\$ (9,373,133)</u>	<u>\$ 55,555,786</u>

Depreciation expenses were charged to governmental functions/programs as follows:

	AMOUNT
Mayor and Municipal Legislature	\$ 502,481
General Government	100,496
Public Safety	200,992
Public Works	418,734
Culture and Recreation	133,995
Human Services and Welfare	217,742
Urban Development	100,496
Total Depreciation Expenses	<u>\$ 1,674,936</u>

11. NONCURRENT LIABILITIES

A. General Obligations Bonds and Special Obligations Bonds

The principal long-term obligations of the Municipality are general obligation bonds and special obligation bonds issued to finance the construction and improvements of public facilities and purchase of machinery and equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 12).

On September 2013, the Municipality issued general obligation bond of 2014 in the amount of \$225,000 for purchase of truck. The principal and interest ranging from 6.00% to 6.50% are payable semi-annually ranging from \$25,000 to \$40,000 on the 1st days of July and January of each year through July 2020.

The following is a summary of general and special obligation bonds of the Municipality as of June 30, 2014:

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
General Obligation Bonds:					
Property Taxes Income:					
General Construction	1996	\$ 575,000	2015	4.87% to 6.29%	\$ 115,000
General Construction	1997	1,525,000	2021	4.87% to 6.56%	820,000
General Construction	2003	4,025,000	2027	4.36% to 5.02%	2,965,000
General Construction	2004	1,500,000	2030	4.17% to 5.02%	1,245,000
General Construction	2005	2,015,000	2030	3.27% to 4.80%	985,000
General Construction	2009	2,795,000	2033	1.53% to 6.00%	2,560,000
General Construction	2009	2,150,000	2033	1.53% to 6.00%	1,970,000
Operational Purpose	2009	1,486,000	2019	4.75% to 6.00%	876,000
General Construction	2010	2,235,000	2034	5.00% to 6.50%	2,090,000
Purchase of Equipment	2011	2,295,000	2017	6.00% to 7.50%	1,455,000
General Construction	2012	135,000	2036	6.00% to 7.50%	125,000
Purchase of Property	2012	435,000	2036	6.00% to 6.50%	425,000
Operational Purpose	2012	1,940,000	2036	6.00% to 6.50%	1,870,000
Operational Purpose	2013	1,820,000	2037	6.00% to 6.50%	1,785,000
Purchase of Truck	2014	225,000	2020	6.00% to 6.50%	225,000
Total General Obligations Bonds					19,511,000
Special Obligation Bonds:					
General Revenues:					
Operational Purpose	2004	1,915,000	2024	1.53% to 7.00%	1,190,000
Section 108 (HUD):					
General Construction	2006	6,000,000	2026	4.96% to 5.77%	4,941,000

continue

11. NONCURRENT LIABILITIES - continuation

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
Sales and Use Taxes:					
General Construction	2008	1,175,000	2032	1.53% to 6.00%	1,085,000
Purchase of Equipment	2011	172,000	2017	6.00% to 6.50%	112,000
General Construction	2011	474,000	2017	6.00% to 6.50%	299,000
General Construction	2011	3,015,000	2035	6.00% to 7.00%	2,880,000
Purchase of Equipment	2012	271,000	2018	6.00% to 7.00%	206,000
General Construction	2012	410,000	2018	6.00% to 7.50%	315,000
Operational Purpose	2013	1,195,000	2037	6.00% to 7.50%	1,175,000
Subtotal					<u>6,072,000</u>
Total Special Obligations Bonds					<u>12,203,000</u>
Total General and Special Obligation Bonds					<u><u>\$ 31,714,000</u></u>

Variable interest rates on bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the USA, and (2) to corporations having tax exemptions under the Puerto Rico Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the US Internal Revenue Code.

According to Sections 103 and 148 through 150 of the US Internal Revenue Code and Sections 1.148 through 1.150 of the US Treasury Regulation, the Municipality's tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2014, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

B. Legal Debt Limit and Legal Debt Margin

On March 9, 2009, the Commonwealth of Puerto Rico approves Law Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The Municipality debt limits are 10% of valuation of property subject to taxation, plus the balance of the special ad valorem taxes in the Debt Service Fund. In addition, before any new bonds are issued, the revenues of the Debt Service Fund should be sufficient to cover the projected debt service requirement. Additional legal debt margin was determine for the issuance of the special obligations bonds that are paid through retention made by the MRCC from monthly advance of annual property tax and subsidy send to the Municipality.

11. NONCURRENT LIABILITIES – continuation

C. Other Long-Term Debts

Following are the other noncurrent liabilities as of June 30, 2014 and corresponding change during the fiscal year.

DESCRIPTION	BALANCE JULY 1, 2013	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2014	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
Law Number 42 - MRCC	\$ 549,596	\$ -	\$ (15,136)	\$ 534,460	\$ 16,087	\$ 518,373
Law Number 146 - MRCC	235,934	-	(12,416)	223,518	12,416	211,102
Christmas Bonus	184,166	203,800	(184,166)	203,800	203,800	-
Consolidated Waste	-	1,962,500	-	1,962,500	120,000	1,842,500
Compensated Absences	1,598,725	842,871	(756,183)	1,685,413	1,321,889	363,524
TOTAL	\$ 2,568,421	\$ 3,009,171	\$ (967,901)	\$ 4,609,691	\$ 1,674,192	\$ 2,935,499

Borrowing from MRCC

On July 1, 2002, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 42. The total amount of debt is \$663,454 to be paid during 30 years plus annual interest of 6.1875%.

On July 1, 2007, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 146. The total amount of debt is \$310,442 to be paid during 25 years plus annual interest of 6.22%.

Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2014 and payroll related benefits, representing the benefit to employees to be paid during the first week of December 2014.

Compensated Absences

This amount represents the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the Municipality's commitment to fund such costs from future operations.

Following are the Other Long-Term Debts:

D. Changes in General Long-Term Debts

The following is a summary of changes in long-term debts for the year ended June 30, 2014:

DESCRIPTION	BALANCE JULY 1, 2013	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2014	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General Obligation Bonds	\$ 20,366,000	\$ 225,000	\$ (1,080,000)	\$ 19,511,000	\$ 1,280,000	\$ 18,231,000
Special Obligation Bonds	13,137,000	-	(934,000)	12,203,000	991,000	11,212,000
Other Obligations	2,568,421	3,009,171	(967,901)	4,609,691	1,674,192	2,935,499
TOTAL	\$ 36,071,421	\$ 3,234,171	\$ (2,981,901)	\$ 36,323,691	\$ 3,945,192	\$ 32,378,499

11. NONCURRENT LIABILITIES – continuation

E. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The Municipality believes it is in compliance with all significant limitations and restrictions.

The annual requirements to amortize the general long-term debts outstanding as of June 30, 2014 are as follows:

YEAR ENDING JUNE 30,	General Obligation Bonds		Special Obligation Bonds		Other Noncurrent Obligations		TOTAL	
	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL	INTEREST
2015	\$ 1,280,000	\$ 950,643	\$ 991,000	\$ 558,174	\$ 1,674,192	\$ 38,421	\$ 3,945,192	\$ 1,547,238
2016	1,375,000	1,054,831	663,000	558,208	2,235,538	37,100	4,273,538	1,650,139
2017	1,405,000	1,012,879	683,000	530,845	30,589	35,715	2,118,589	1,579,439
2018	1,495,000	925,791	709,000	495,724	31,730	34,262	2,235,730	1,455,777
2019	1,176,000	853,372	614,000	461,566	32,943	32,737	1,822,943	1,347,675
2020-2024	4,575,000	3,475,279	2,625,000	1,862,351	185,768	137,975	7,385,768	5,475,605
2025-2029	4,215,000	2,209,752	2,273,000	1,100,354	229,824	86,143	6,717,824	3,396,249
2030-2034	3,955,000	1,009,206	1,640,000	541,225	189,107	21,225	5,784,107	1,571,656
2035-2037	1,225,000	123,203	815,000	164,675	-	-	2,040,000	287,878
TOTAL	\$ 20,701,000	\$ 11,614,956	\$ 11,013,000	\$ 6,273,122	\$ 4,609,691	\$ 423,578	\$ 36,323,691	\$ 18,311,656

12. DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the MRCC of the Commonwealth of Puerto Rico to the Municipality (See Note 13).

These property taxes are accumulated by the MRCC in costs of the general obligations bonds issued by the Municipality (See Note 11). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the MRCC.

As per Act Number 18 of 2014 was created the "Law of Municipal Administration Fund (MAF)" to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of indebtedness, which are the source of repayment funds deposited in the Special Fund and to meet any expenditure budget of the municipality and the municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for purposes set out in this Act.

This measure is intended, first, to strengthen the financial capacity of the Corporation Tax Fund of Puerto Rico (COFINA, by Spanish acronyms), established under Law No. 91-2006, as amended, known as the "Law Fund of Sales and Usage Taxes", adjusting the sales and usage taxes (SUT) by increasing the state portion to 6.0% while the municipal SUT is reduced to 1.0%, effective February 1, 2014.

Through this legislation a mechanism under which the SUT collections entitled to receive the Commonwealth of Puerto Rico each fiscal year, after complying with the deposits in the Tax Fund requires by Act No. 91-2006, shall be deposited in a special fund created for the benefit of, and assigned to the municipalities. This special fund is called the "Local Government Fund" ("LGF"), which will be guarded by the Government Development Bank of Puerto Rico.

12. DEBT RETIREMENT – continuation

Also, on February 1, 2014 was enacted the Act No. 19 that creates the Municipal Financing Corporation (COFIM, by Spanish acronyms). The COFIM, attached to the Government Development Bank (GDB), with the power to issue bonds or use other mechanisms to pay or refinance debt incurred by municipalities, the payment of principal and interest is backed by the municipal SUT.

In addition, create the Redemption Fund of COFIM, to which the resources of the existing Municipal Fund Redemption will be transferred effective February 1, 2014, and facilitated the distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvement Fund. Provides that the first proceeds of the municipal SUT of 1% shall be collected by the Treasury Department and deposited directly into the Redemption Fund of COFIM. Provides that bonds and notes issued by the COFIM be payable and secured by the pledge of a fixed amount, or municipal SUT corresponding to a fixed rate of 0.3% has been collected during the previous fiscal year, whichever is greater.

13. PROPERTY TAXES

The Municipality is authorized by Act No. 81 to impose and collect property taxes from any natural or legal person that, at January 1st of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business, or (2) owns residential real property with a value in excess of \$15,000 (at 1957 market price). The MRCC is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding tax contribution. Real property taxes are assessed by the MRCC as January 1st of each year.

The personal property tax is self-assessed by the taxpayer on a return, which is to be filed and paid in full by May 15 of each year with the MRCC and based on current values as of December 31 of previous year. Real property tax is assessed by the MRCC on each piece of real estate and on each building or residence. The property tax contribution is levied each year over the appraised value of the real property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957.

The MRCC is responsible for the billing of real property taxes and collections of both, personal and real property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the MRCC informs the Municipality of the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the year, the MRCC advances funds to the Municipality based on the initial estimated collections. The MRCC is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the MRCC remits to the Municipality property taxes advances, which are less than the tax actually collected, a receivable from the MRCC is recorded at June 30. However, if advances exceed the amount actually collected, a borrowing from MRCC is recorded at June 30. The difference between the advances and the final settlement from MRCC for the fiscal year 2014 resulted in a receivable of \$26,811 for the Debt Service Fund. At the time of the preparation of the financial statement, the difference between the advances and the final settlement to the General Fund is pending of final determination.

13. PROPERTY TAXES – continuation

The tax rate for fiscal year 2014 is 10.43% for real property and 8.43% for personal property of which 1.03% of both are for the redemption of public debt issued by the Commonwealth of Puerto Rico and 9.40% and 7.40%, respectively, belongs to the Municipality. The Commonwealth of Puerto Rico also contributes an annual tax rate of 0.20% of the property tax collected. Taxpayers pay 10.23% for real property and 8.23% for personal property and the remaining 0.20% is paid by the Commonwealth's Secretary of the Treasury as a subsidy. As part of Act No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Secretary of the Treasury to the Municipality was frozen as of January 1, 1992. The remaining percentage is distributed as follows: (a) 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. The remaining portion belonging to the Municipality of 3.20% represents the ad-valorem property taxes withheld by the MRCC and restricted for debt service, which is accounted for through the debt service fund (See Note 12). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

As previously mentioned, on March 9, 2009, the Commonwealth of Puerto Rico approves Act Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The effect of this Law was an increase in the valuation of the real properties and in the exemption granted for the residential units occupied by their owners by multiply both amount by ten. Accordingly, the residential units occupied by their owners are exempt from real property taxes on the first \$150,000 assessed value. For such exempted amounts, the Puerto Rico Secretary of the Treasury assumes payment of the basic tax to the Municipality (6.00%), except for residential units assessed at less than \$35,000 on which a complete exemption is granted. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Secretary of the Treasury to the Municipality was frozen as of January 1, 1992. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

In addition, the law grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with an annual net sales volume of less than \$150,000. The MRCC advances to the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the MRCC from taxpayers. The MRCC periodically informs to the Municipality the amounts collected from taxpayers and applied to outstanding advances.

The Municipality records as revenue in the general fund the property tax contribution when received from monthly advances from MRCC. Due to the fact that collections of property tax are applied to the advances of property tax paid by the MRCC, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

The fiscal impact for the future years has not been determined by the Municipality's management.

14. VOLUME OF BUSINESS TAXES

The volume of business taxes is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due five working days after April 15 of each year. Entities with sales volume of \$3 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2014, the tax rates were as follows:

- a. Financial institutions and savings and loan associations – 1.50%
- b. Other organizations – 0.50%

14. VOLUME OF BUSINESS TAXES - continuation

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration on or before the due date, the taxpayer is granted a 5% of discount. The volume of business tax receivable represents filed tax returns that were uncollected as of June 30, 2014. Collections of taxes during current fiscal year corresponding of the tax return based on the prior year gross sales are applicable to the next fiscal year and recorded as unearned revenues in the General Fund.

15. SALES AND USAGE TAXES

Municipality imposes a Sales and Usage Taxes of 1.5% (1.0% collected and belong to the Municipality and 0.5% collected by the Puerto Rico Secretary of the Treasury) on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. All merchants required to collect the Sales and Usage Taxes, are required to file a monthly Sales and Usage Tax Return Form, no later than the 10th of the following month from the month being reported. The Act also provides for restrictions on the use of the resources (including the 0.5% collected by the Puerto Rico Secretary of Treasury) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

The amount collected by the Puerto Rico Secretary of Treasury will be deposited in accounts or special funds in GDB, subject to restrictions imposed and distributed as follows:

- a. 0.2% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act;
- b. 0.2% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act; and
- c. 0.1% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects. These funds will be distributed based on legislation from the Commonwealth's Legislature.

Sales tax receivable represents filed sales tax returns that were collected subsequent to June 30, 2014, but pertaining to the current year period.

As per Act Number 18 of 2014 was created the "Law of Municipal Administration Fund (MAF)" to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of indebtedness, which are the source of repayment funds deposited in the Special Fund and to meet any expenditure budget of the municipality and the municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for purposes set out in this Act.

This measure is intended, first, to strengthen the financial capacity of the Corporation Tax Fund of Puerto Rico (COFINA, by Spanish acronyms), established under Law No. 91-2006, as amended, known as the "Law Fund of Sales and Usage Taxes", adjusting the sales and usage taxes (SUT) by increasing the state portion to 6.0% while the municipal SUT is reduced to 1.0%, effective February 1, 2014.

Through this legislation a mechanism under which the SUT collections entitled to receive the Commonwealth of Puerto Rico each fiscal year, after complying with the deposits in the Tax Fund requires by Act No. 91-2006, shall be deposited in a special fund created for the benefit of, and assigned to the municipalities. This special fund is called the "Local Government Fund" ("LGF"), which will be guarded by the Government Development Bank of Puerto Rico.

Also, on February 1, 2014 was enacted the Act No. 19 that creates the Municipal Financing Corporation (COFIM, by Spanish acronyms). The COFIM, attached to the Government Development Bank (GDB), with the power to issue bonds or use other mechanisms to pay or refinance debt incurred by municipalities, the payment of principal and interest is backed by the municipal SUT.

15. SALES AND USAGE TAXES – continuation

In addition, create the Redemption Fund of COFIM, to which the resources of the existing Municipal Fund Redemption will be transferred effective February 1, 2014, and facilitated the distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvement Fund. Provides that the first proceeds of the municipal SUT of 1% shall be collected by the Puerto Rico Treasury Department and deposited directly into the Redemption Fund of COFIM. Provides that bonds and notes issued by the COFIM be payable and secured by the pledge of a fixed amount, or municipal SUT corresponding to a fixed rate of 0.3% has been collected during the previous fiscal year, whichever is greater.

16. CONSTRUCTION EXCISE TAXES

Municipality imposes and collects municipal construction excise taxes to most natural and legal persons and any governmental instrumentality that carry out activities related to construction, expansion, major repairs, relocations, alterations and other types of permanent improvements to residential, commercial and industrial buildings, and any structures within the territorial area of the Municipality. The tax is also applicable to infrastructure projects, the installation of machinery, equipment and fixtures, and other types of construction-related activities.

The construction excise tax generally is a self-assessed tax imposed over the cost of the project, net of certain exemptions such as the costs associated with the acquisition of land, existing buildings and improvements, project design and other engineering fees, licenses and permits, consulting and legal fees. The tax is paid by the taxpayer before the beginning of the construction project.

A construction project, which doesn't qualify for any of the exceptions presented below, will pay a tax of 8% of the total cost amount of the project. The exceptions for the 8% Construction Tax imposed by the Municipality are as follow:

- a. Any religious institution (legally registered as such) which operates as a not-for-profit entity, and is affiliated to the councils and associations that group said institutions in Puerto Rico, will be exempted from payment of any construction tax.
- b. When construction is for a residence, made of at least 50% concrete, and said residence is not part of a housing project, urbanization, condominium, or any project of a similar nature (up to a total cost of \$90,000); a 4% rate will be collected up to a maximum total construction cost of \$90,000 (of which the first \$20,000 are exempted). In addition, if the total construction cost is in excess of the \$90,000, an 8% rate will be collected and the \$20,000 exception will not apply.
- c. For any construction not notified to the Municipality, and for which no construction tax has been paid, a 10% (annual) fine over the amounts of tax not paid will be imposed.

Taxes are payable before beginning construction or any activity related to the construction. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

17. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the Quasi-public Corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

18. PENSION PLAN

Description of the Plan

Employees of the **Municipality** participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration. The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended. The ERS is a pension trust of the Commonwealth. ERS covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems. The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

As of June 30, 2013, the ERS has an unfunded actuarial accrued liability (UAAL) of approximately \$22,981 million, representing a 3.1% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, it is estimated that starting in fiscal year 2015, the ERS's assets will be less than its obligations (including bonds payable but excluding its UAAL) resulting in a deficit net position. In addition, annual cash flow estimates for the foreseeable future are presently estimated to continue to reduce the net position unless other measures are taken.

The estimate of when the ERS's net position will become a deficit and when its assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member, employer contributions and the employer additional contribution (Act No. 32), which as discussed below, was estimated in \$120.0 million annually, as well as the estimated participant benefits and the ERS's administrative expenses to be paid each year.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries. An appropriation for such additional contribution of approximately \$120 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of budgetary constraints at the present time management believes that approximately \$90 million of this amount will not be collected as expected during fiscal year 2014. Further, this additional contribution was reduced to \$28.2 million for the Commonwealth's proposed budget for the fiscal year 2015.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the ERS and its additional contribution as provided by Act No. 32, for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the ERS's bond payable.

Act No. 70 established a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 also establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act 1, or the date the plan member would have completed 30 years of service had the member continued its employment. The ERS will be responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make the required contributions to the ERS. As of June 30, 2013, the ERS has recorded a liability of approximately \$16 million for its responsibility as an employer under Act No. 70.

18. PENSION PLAN – continuation

Furthermore, Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013. Employees participating in the current system (ERS) should be retired as of June 30 2013 in order to obtain the current benefits. Also, Act No. 3 amended the Act No. 305 of September 24, 1999 that's created a Defined Contribution Hybrid Program known as System 2000, incorporating the provisions of the system to Chapter 5 of the ERS. The System 2000 applied to employees joining the ERS on or after January 1, 2000.

Follow are the principal amendment of Act No. 447 by Act No. 3:

Chapter 3 of the Act No. 447, established the following date of retirement:

- (a) General Rule – The first day of the month that coincides with or is subsequent to the date that the participant of the program reaches the age of sixty (60), except as provided in clause (b) of this subsection.
- (b) Public Officers in High-Risk Positions- In the case of Public Officers in High-Risk Positions, it shall mean the first day of the month that coincides with or is subsequent to the date that the Participant reaches the age of fifty-five (55) years. (Public Officers in High-Risk Positions shall mean the Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.)
- (c) Effectiveness of these provisions: the normal date of retirement established in subsections (a) and (b) of this definition shall be in force until June 30, 2013.

Retirement age for participants who joined public service after June 30, 2013. The retirement age shall be 67 years, except in the case of Public Officers in High-Risk Positions, for whom it shall be fifty eight (58) years.

Participant of the Program

Shall mean, until June 30, 2013, every person for whom the Administrator maintains an account under the Retirement Savings Account Program pursuant to the provisions of Chapter 3 of Act No. 447. Beginning on July 1, 2013, it shall mean every person for whom the Administrator maintains an account under the Defined Contribution Hybrid Program pursuant to the provisions of Chapter 5 of this Act.

The membership of the System shall be constituted by every person who holds a regular position as a career, trust, temporary employee or with probationary personnel status in any executive department, agency, administration, board, commission, office, or instrumentality of the Executive Branch, by the Justices of the Peace, the regular employees and officials of the Judiciary Branch, and by all regular officials and employees of the municipalities, including the mayors. Temporary municipal employees shall not participate in the Retirement System.

Membership in the Retirement System shall be optional for the Governor of Puerto Rico, for all the Secretaries of Government, heads of public agencies and instrumentalities, the Governor's aides, the members of commissions and boards appointed by the Governor, the members of the Legislative Assembly of Puerto Rico, for the employees and officials of the Legislative Assembly of Puerto Rico, the Office of Legislative Services and the office of the Superintendent of the Capitol, and the Comptroller of Puerto Rico. These officials may, at any time, request to be discharged from, or readmitted into the System. The period of services rendered to the Government while separated from the System, shall be credited as creditable service, provided said officials pay the individual and employer contributions, plus interest, that correspond to the period of separation, to the system.

18. PENSION PLAN – continuation

As of July 1, 2013, every employee who is a participant of the System, including mayors, regardless of the date when he/she was first appointed to the Government of the Commonwealth of Puerto Rico, its instrumentalities, municipalities or participating employers of the System, shall become part of the Defined Contribution Hybrid Program.

Notwithstanding the fact that a superannuation retirement annuity is payable for life, if annuitants return to the service, the payment of their annuity shall be suspended. After an annuitant separates from service, payment of the suspended annuity shall resume and he/she shall also have the option to withdraw the contributions made since the date he/she returned to service up until he/she separates from service if, after returning to service, he/she worked less than five (5) years or accrued contributions for less than ten thousand dollars (\$10,000). In the event the annuitant worked five (5) years or more and contributed ten thousand dollars (\$10,000) or more, after returning to service, he/she shall be entitled, after his/her separation from service and after reaching the age established in Section 5-110 of Act No. 447, to receive an additional annuity computed pursuant to Section 5-110 of this Act, on the basis of the contributions made since the date said annuitant returned to service until his/her separation from it.

Annuity for Years of Service

As per Act No. 3, retirement shall be optional for new participants joining the System for the first time after April 1, 1990, as of the date in which they reach the age of sixty-five (65), have completed a minimum of ten (10) years of accredited services and have not requested or received the reimbursement from the accrued contributions. The amount of the annuity shall be one point five percent (1.5%) of the average compensation multiplied by the years of accredited services. However, a minimum pension of five hundred dollars (\$500) per month, effective July 1, 2013, is hereby fixed for those participants who retired in accordance with the provisions of this Chapter 2. Every pensioner who receives a pension of less than five hundred dollars (\$500) per month shall receive, effective July 1, 2013, the increase required for his/her pension to be five hundred dollars (\$500).

Public Officers in High-Risk Positions may voluntarily opt to retire after reaching the age of fifty-five (55) and thirty (30) years of service. Retirement shall be mandatory on the date the participant reaches both thirty (30) years of service and the age of fifty-eight (58). Provided, that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority may grant dispensations authorizing members of this group to work for an additional maximum period of two (2) years performing the functions assigned to them; provided that their health and safety are not compromised. Such a request for dispensation shall be made by the member, not later than ninety (90) days before his/her retirement date. It is hereby provided that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority shall make the necessary regulatory provisions to comply with this Act.

Retirement shall be optional for the members of the System in active service, on and after the date they have attained the age of fifty-five (55) years and have completed at least twenty-five (25) years of creditable service; and for members of the System who having reached the age of fifty-eight (58) years, and have completed at least ten (10) years of creditable service. The members of the Police Corps or the Firefighting Corps shall also have the option to avail themselves of a retirement annuity on and after the date on which they have attained the age of fifty (50) years and have completed at least twenty-five (25) years of creditable service.

Any participant whose separation from the service occurs prior to having attained the age of fifty-eight (58) years, who shall have completed at least ten (10) years of creditable service, and who shall have not applied for, nor received reimbursement of accumulated contributions shall be entitled to receive a deferred retirement annuity. Said participants shall receive a deferred retirement annuity which shall commence upon attaining the age of fifty eight (58) years or after attaining the age of fifty (50) years in the case of policemen or firemen, and fifty-five (55) years in the case of the other participants, if they have completed at least twenty-five (25) years of service in one case or the other.

18. PENSION PLAN – continuation

The amount of the annuity shall be one and one-half percent (1.50%) of the average compensation multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty (20) years. Said annuity shall be payable in full to the members who retire at the age of fifty-eight (58) years or more, and to the members of the Police Corps [or] the Firefighting Corps who retire at the age of fifty (50) years or more and who have completed at least twenty-five (25) years of creditable service.

Merit Annuity – Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation. As a result of the enactment of Act No. 3 of April 4, 2013, effective July 1, 2013, merit annuities will no longer be available to participants who joined the ERS after April 1, 1990.

Deferred Retirement Annuity – A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the ERS are left within the ERS until attainment of 58 years of age.

The amount of the superannuation retirement annuity of mayors who are participants of the System shall be computed on the basis of the highest salary he/she may have received while discharging his/her government duties in the following manner:

- (1) For services performed as mayor, five percent (5%) of said salary for each year of creditable service up to a maximum of ten (10) years or fifty percent (50%), plus
- (2) For other services performed not included in the above computation, one and one half percent (1.50%) of said salary multiplied by the number of years of such other creditable services up to twenty (20) years, or two percent (2%) of said salary multiplied by the number of years of such other creditable services in excess of twenty (20) years.

The maximum superannuation retirement annuity to be granted under this subsection shall be ninety percent (90%) of the highest salary that the mayor may have received. The payments of the retirement annuity shall begin on and after the date of separation from service, but never before the mayor has attained fifty (50) years of age.

Retirement shall be optional for any participant of the System in active service who shall have completed at least thirty (30) years of creditable service. Said participant shall be entitled to receive the Merit Annuity for thirty (30) years or more of service in accordance with subsections (b) and (c) of this section thereof. Participants of the System under the Coordinating Plan and receiving Social Security benefits, who have not attained sixty-five (65) years of age, shall receive a merit annuity to be computed as provided for hereinafter:

- (1) For those participants who have completed thirty (30) years or more of creditable services and have not attained fifty-five (55) years of age or more, sixty-five percent (65%) of the average compensation.
- (2) For those who have completed thirty (30) years or more of creditable services and have attained fifty-five (55) years of age or more, seventy-five (75%) of the average compensation.
- (3) Years in excess of thirty (30) may only serve as basis to calculate the average compensation

As per Act No. 447 the following provisions shall apply to employees who participate in the System that (i) began to work before January 1, 2000, (ii) as of June 30, 2013, are not participants of the Retirement Savings Account Program established in Chapter 3 of this Act and (iii) as of June 30, 2013, do not meet the requirements of years of service and age to retire that are required in Chapter 2 of this Act:

18. PENSION PLAN – continuation

- (1) New Retirement Age for participants who joined the System for the first time before April 1, 1990. For those participants who, as of June 30, 2013, have not reached the age of 58 and completed at least 10 years of service, or have not reached the age of 55 and completed at least 25 years of service, retirement shall be optional when they meet the following age and service requirements:
 - (i) If, as of June 30, 2013, the participant is 57 years of age, the retirement will be optional when he/she reaches 59 years of age and has completed at least 10 years of service.
 - (ii) If, as of June 30, 2013, the participant is 56 years of age, the retirement will be optional when he/she reaches 60 years of age and has completed at least 10 years of service.
 - (iii) If, as of June 30, 2013, the participant is 55 years of age or less, the retirement will be optional when he/she reaches 61 years of age and has completed at least 10 years of service.
- (2) Retirement Age for participants who joined the System for the first time between April 1, 1990, and December 31, 1999 – For participants who, as of June 30, 2013, have not reached the age of 65 and completed at least 10 years of service, retirement shall be optional when the participant reaches 65 years of age and has completed 10 years of service.
- (3) For Public Officers in High-Risk Positions who began to work before April 1, 1990 and who, as of June 30, 2013, have not reached the age of 50 and completed at least 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.
- (4) For Public Officers in High-Risk Positions who began to work between April 1, 1990, and December 31, 1999, and who, as of June 30, 2013, are not 55 years old and have completed 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.
- (5) Public Officers in High-Risk Positions who separate from active service before meeting the requirements of age and service provided in subsection (a)(3) or (a)(4) of this Section may only receive their accrued pension when they meet the following age and service requirements:
 - (i) If the participant joined the System for the first time before April 1, 1990, after he/she meets the age and service requirements established in subsection (a) 1 of this Section.
 - (ii) If the participant joined the System for the first time between April 1, 1990, and December 31, 1999, after he/she meets the age and service requirements established in subsection (a) 2 of this Section.

Pension Computation

When the participant meets the age and service requirements established above, he/she shall be entitled to receive an annuity computed on the basis of years of service accrued as of June 30, 2013, in accordance with the following rules:

- (i) The average salary of employees who began to work before April 1, 1990, shall be the one established in definition number 15 of Section 1-104 of Act No 447.
- (ii) The average salary of employees who began to work between April 1, 1990, and December 31, 1999, shall be the one established in Section 1-108 of this Act.

18. PENSION PLAN – continuation

- (iii) The pension computation of employees who began to work before April 1, 1990, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2.0%) of the average salary, multiplied by the number of years of creditable service in excess of twenty years, in each case up to June 30, 2013.
- (iv) The pension computation of employees who began to work between April 1, 1990 and December 31, 1999, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to June 30, 2013.
- (v) Participants of the System who, as of June 30, 2013, have availed themselves to the Coordinating Plan and are receiving Social Security benefits will have their annuities adjusted in accordance with the provisions of subsection (e) of Section 2-101 of this Act. Provided that until the participant is entitled to receive the Social Security benefits, he/she may receive an annuity in accordance with Section 5-103 of this Act.
- (vi) This pension shall be received together with the annuity accrued by a participant under Section 5-110 of this Act.

Beginning on July 1, 2013, participants shall not accrue any more years of service for the determination of the average salary and computation of a pension under Section 5-103(a)(4). In addition, participants may not have services not credited recognized, contributions transferred or returned for periods worked before June 30, 2013, except for those exceptions specifically established in Act No 447.

Those participants who began to work on or after January 1, 2000, or those who as of June 30, 2013, were participants in the Retirement Savings Program and who as of June 30, 2013, could retire from service because they are sixty (60) years old, may retire on any later date and they shall be entitled to receive the annuity that could be acquired with the balance of the contributions under the Retirement Savings Account Program and those accrued under the Defined Contribution Hybrid Program.

The savings accounts under the Retirement Savings Account Program of employees who joined the System for the first time on or after January 1, 2000, shall be rolled over to the Defined Contribution Hybrid Program. Be it provided that if, as of June 30, 2013, the employees have not reached the age of sixty (60), they shall be entitled to the annuity established in Section 5-110 of Act No. 447 when they meet the following age requirements:

- (i) If, as of June 30, 2013, the participant is 59 years old, the retirement will be optional when he/she has reached 61 years of age.
- (ii) If, as of June 30, 2013, the participant is 58 years old, the retirement will be optional when he/she has reached 62 years of age.
- (iii) If, as of June 30, 2013, the participant is 57 years old, the retirement will be optional when he/she has reached 63 years of age.
- (iv) If, as of June 30, 2013, the participant is 56 years old, the retirement will be optional when he/she has reached 64 years of age.
- (v) If, as of June 30, 2013, the participant is 55 years old or less, the retirement will be optional when he/she has reached 65 years of age.

For Public Officers in High-Risk Positions who began to work after December 31, 1999, and who, as of June 30, 2013, are not 55 years old, retirement shall be optional when they reach 55 years of age.

18. PENSION PLAN – continuation

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

Contributions of Participants of Defined Benefit Program

Contribution requirements are established by law and are as follows:

Coordinated Plan – Prior to July 1, 2013 on the coordinated plan, the participating employee contributes 5.775% for the first \$6,600 of salary plus 8.275% for the excess over \$6,600. For fiscal 2013-2014 the contribution was 7.00% for the first \$6,600 of salary plus 10.00% for the excess over \$6,600. For fiscal 2014-2015 the contribution was 8.50% for the first \$6,600 of salary plus 10.00% for the excess over \$6,600. After July 1, 2015 the contribution was 10.00% of salary. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- \$165 per month if retired with 55 years of age and 30 years of credited service.
- \$110 per month if retired with less than 55 years of age and 30 years of credited service.
- All other between \$82 and \$100 per month.
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over \$165 per month.

Non-Coordinated Plan (Supplementation Plan) – Prior to July 1, 2013 on the non-coordinated plan, the participating employee contributes 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits. After July 1, 2015 the contribution was 10.00% of salary.

Contributions of Participants of Hybrid Program

Contribution requirements are established by law and are as follows:

- (a) Every participant of the Hybrid Program shall compulsorily have to contribute ten percent (10%) of his/her salary while he/she is an employee.
- (b) Contributions under the Plan of Coordination with Social Security benefits – The participants of the System who, as of June 30, 2013, have availed themselves to the Plan of Coordination with Social Security benefits shall contribute to the Hybrid Program:
 - (1) Effective July 1, 2013, shall contribute seven percent (7%) of their monthly salaries up to five-hundred fifty dollars (\$550) and ten percent (10%) of their monthly salaries in excess of said amount.
 - (2) Effective July 1, 2014, shall contribute eight point five percent (8.5%) of their monthly salaries up to five-hundred fifty dollars (\$550) and ten percent (10%) of their monthly salaries in excess of said amount.
 - (3) Effective July 1, 2015, shall contribute ten percent (10%) of their full monthly salaries.

The participants of the Program under subsections (a) and (b) of this Section may voluntarily contribute to their account an amount in addition to the one established here. These contributions shall be credited to the contribution account of each participant of the Hybrid Program. The Administrator shall establish the way in which the participants may make additional contributions.

18. PENSION PLAN – continuation

- (c) Mandatory Contribution for the Purchase of Disability Insurance – Every participant of the Hybrid Program shall mandatorily contribute to the disability insurance established in Section 5-112 of Chapter 5 of Act No. 447, for which he/she shall have to contribute such sums, fixed in dollars or a percent of the salary, that the Administrator, with the approval of the Board, determines that are needed to provide the disability benefit, provided the contribution required by the Administrator is equal to or less than point twenty five percent (0.25%) of the participant's salary. The contributions made pursuant to this subsection may be credited against and will reduce the contributions that the participant of the Program is bound to pay to the Commonwealth of Puerto Rico Employees Association as provided in Section 8 of Act No. 133 of June 28, 1966, as amended. The contributions made under this subsection shall not be credited to the participant's account.

Employer Contributions to the System (ERS and Hybrid Program)

On July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Every employer, beginning on July 1, 2013, shall mandatorily contribute to the System the following:

July 1, 2013	Twelve point two hundred seventy-five percent (12.275%) of the salary of each participant
July 1, 2014	Thirteen point two hundred seventy-five percent (13.275%) of the salary of each participant
July 1, 2015	Fourteen point two hundred seventy-five percent (14.275%) of the salary of each participant
July 1, 2016	Fifteen point five hundred twenty-five percent (15.525%) of the salary of each participant
July 1, 2017	Sixteen point seventy hundred seventy-five percent (16.775%) of the salary of each participant
July 1, 2018	Eighteen point twenty-five percent (18.025%) of the salary of each participant
July 1, 2019	Nineteen point two hundred seventy-five percent (19.275%) of the salary of each participant
July 1, 2020	Twenty point five hundred twenty-five percent (20.525%) of the salary of each participant

It is provided that the established increases applicable to the municipalities for fiscal years 2012-2013 and 2013-2014, shall be included in the budget petition submitted by the Office of Management and Budget to the Legislative Assembly.

18. PENSION PLAN – continuation

Death, Disability or Terminal Illness Benefits

Death of a Participant in Active Service

Upon death of any person who is rendering services and who had contributions accrued in the Hybrid Program, these contributions shall be reimbursed to the person or persons the participant had designated through written order duly acknowledged and submitted to the Administrator, or to his/her heirs, in the event such designation had not been made. The reimbursement shall be equal to the sum of the contributions and the investment yields up to the date of the demise of the participant. The Administrator shall collect from the contributions any debt the participant may have with the System.

Death of a Pensioner

If a pensioner dies without having consumed all of his/her pension payment contributions, his/her designated beneficiaries or, absent such designation, his/her heirs, shall continue receiving the monthly pension payments until the contributions of the participant are completely consumed.

Separation from Service for Disability or Terminal Illness

The balance in the contribution account of every participant of the Hybrid Program who is permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be distributed to the participant by the Administrator in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant.

Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447.

Disability Insurance

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator.

Additional Benefits Program

The Additional Benefits Program is established for pensioners of the ERS; said benefits are separate and shall not form part of the pension or annuity.

Except for those persons who retire under Chapter 5 of Act No. 447 of May 15, 1951, as amended, every person who was receiving a pension or benefit under Act No. 447, or the pension plans superseded by it, or any other law administered by the Administrator of the ERS, excluding any person who is receiving a pension or benefit under Act No. 12 of October 19, 1954, as amended, shall be entitled to receive the following benefits:

- (a) A Medication Bonus equal to one hundred (\$100), which shall be paid no later than July 15 of each year;

18. PENSION PLAN – continuation

- (b) A Christmas Bonus equal to two hundred dollars (\$200), which shall be paid no later than December 20 of each year, and
- (c) A Government contribution for health benefits for employees covered by health benefit plans under Act No. 95 of June 29, 1963, as amended, of one hundred dollars (\$100) monthly for pensioners of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, but it shall not exceed the total amount of the corresponding fee to be paid to any employee.

In order to fund the Additional Benefits Program and the ERS, beginning on fiscal year 2013-2014 and every subsequent fiscal year, the ERS shall receive a contribution equal to two thousand dollars (\$2,000) as of July 1 of every year for every pensioner of the ERS who began to work in the Public Service on or before of December 31, 1999.

The Administration of the ERS shall determine the total amount of the special additional contribution provided in the above paragraph and shall send a certification to the Director of the Office of Management and Budget and to each public corporation and municipality whose employees are retired under the ERS, informing them the amount corresponding to the special additional contribution.

The funds to cover the contribution described above, with respect to pensioners of the Central Government, shall be allocated in the Budget of Expenses of the Government of the Commonwealth of Puerto Rico. Public corporations and municipalities whose employees are covered under this Act shall provide the funds to cover the contribution described in Section 2 with respect to their pensioners.

The persons who retire under the provisions of Act 305-1999, known as 'Retirement Savings Accounts Program', and under Chapter 5 of Act No. 447 of May 15, 1951, as amended, shall be excluded from receiving the benefits granted under Act.

Annual Contribution

The Municipality's contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follow:

FISCAL YEAR	DEFINED BENEFIT	HYBRID PROGRAM	ACT NO. 3
2014	\$ -	\$ -	\$ 223,678
2013	48,426	224,520	-
2012	56,875	258,410	-

Total employee contributions to the above-mentioned plans during the year ended June 30, 2014, 2013 and 2012 amounted to approximately \$734,509.

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

19. HEALTHCARE COSTS

During the year ended June 30, 2000 the Governor of the Commonwealth of Puerto Rico required to the municipalities of Puerto Rico an annual contribution to subsidize the cost of the implementation and administration of the Healthcare Reform. Such contributions are required to be disbursed from general fund operating budget. Total contributions made by the Municipality amounted to approximately \$624,038 for the fiscal year ended June 30, 2014.

20. CONTINGENCIES

A. Claims and Judgments

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

B. Federal Grants

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

21. COMMITMENTS

A. Operating Leases

The Municipality leases equipment under various operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same term. Rental expenditures/expenses recorded in the general fund for the year ended June 30, 2014, amounted to approximately \$113,248. Management believes that the summary of the future minimum rental commitments under noncancelable equipment lease with terms exceeding one year is not material to the basic financial statements taken as a whole.

B. Other Commitments

At June 30, 2014, the general fund had a deficit of \$1,194,513 which will be covered with future budgetary appropriations of the general fund. The deficits result from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement-based (expenditure-driven) grants on GFFS when all applicable eligibility requirements have been met and the resources are available. Any amount not covered by the corresponding award will be covered with future budgetary appropriations of the general fund, if necessary.

22. NET POSITION / FUND BALANCES RESTATEMENTS

A. Net Position

For the year ended June 30, 2014, the **Municipality** has adopted GASB 65, which states that debt issuance costs should be recognized as an outflow of resources in the period incurred rather than recognized over the life of the debt incurred.

Net Position, as Previously Reported, At June 30, 2013	\$ 22,943,362
Adjustment to Due From(To) Other Funds	91,214
Adjustment to cancelled account payable	39,140
Adjustment to expenditures (ck cancelados)	1,992
Adjustment to Account Payable (CON WASTE)	1,962,500
Adjustment to Capital Assets	<u>(260,989)</u>
Beginning Net Position, as Restated, At July 1, 2013	<u>\$ 24,777,219</u>

B. Fund Balances

The following reconciles the June 30, 2013 Fund Balances, as previously reported to Beginning Fund Balances, as restated, July 1, 2013 for the various funds:

	GENERAL FUND	ACTIVITIES CENTER FUND	MULTIUSES COLISEUM FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS
Fund Balances, As Previously Reported, At June 30, 2013	\$ (3,468,805)	\$ 2,092,622		\$ 1,642,302	\$ 1,118,503
Adjustment to Due From(To) Other Funds		-	-	-	91,214
Adjustment to cancelled Account Payable		-	-	-	39,140
Adjustment to Expenditures (Canceled Checks)		-	-	-	1,992
Adjustment to Account Payable (SolidWaste)	<u>1,962,500</u>	-	-	-	-
Beginning Fund Balances, As Restated, At July 1, 2013	<u>\$ (1,506,305)</u>	<u>\$ 2,092,622</u>	<u>\$ -</u>	<u>\$ 1,642,302</u>	<u>\$ 1,250,849</u>

23. NEW ACCOUNTING STANDARDS

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2014:

GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement, and to defined contribution plans that provide postemployment benefits other than pensions.

The major fundamental change, among others related to the application and determination of certain measurement assumptions in valuing pension plans, is switching from the existing "funding-based" accounting model, where currently the Annual Required Contribution (ARC) is compared to the actual payments made and that difference determines the Net Pension Obligation; to an "accrual basis" model similar to current FASB standards, where the Total Pension Obligation (Actuarially determined) is compared to the Net Plan Position (or assets) and the difference represents the Net Pension Liability. This particular Statement will be applicable to the three Retirement Systems of the Commonwealth of Puerto Rico, not to the rest of the Commonwealth's agencies or any of the Commonwealth's component units. The impact of this Statement will be establishing its new net pension liability for the Commonwealth to an amount resembling the existing actuarial deficiency in the aforementioned Retirement Systems which at June 30, 2013 amounted to approximately \$34 billion.

GASB Statement No. 70 ("GASB 70"), *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

A nonexchange financial guarantee is a credit enhancement or assurance offered by a guarantor without receiving equal or approximately equal value in exchange. The guarantor agrees to pay an obligation holder in the event that the issuer of the obligation is not able to make its required payments to the obligation holder. Nonexchange financial guarantees can include guarantees by a state for bonds issued by local governments within that state or guarantees of mortgage loans to individuals, if equal or approximately equal value is not received in exchange.

GASB 70 does not have any impact on the Municipality's financial statements.

24. SUBSEQUENT EVENT

In preparing these financial statements, the Municipality has evaluated significant transactions for potential recognition or disclosure through March 19, 2015, the date the financial statements were issued. Based on such analysis, no additional transaction need to be recorded or disclosed.

END OF NOTES

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF SAN LORENZO

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts (Budgetary Basis) (See Accompanying Notes)	Variance with Final Budget
	Original	Final		
BUDGETARY FUND BALANCE (DEFICIT), JULY 1, 2013	\$ (3,263,299)	\$ (3,263,299)	\$ (3,263,299)	\$ -
Resources (Inflows):				
Property Taxes	3,339,833	3,339,833	3,339,833	-
Volume of Business Taxes	3,470,653	3,470,653	2,666,327	(804,326)
Sales and Usage Taxes	1,353,737	1,353,737	1,282,431	(71,306)
Intergovernmental Revenues	5,955,603	5,955,603	6,909,634	954,031
Construction Excise Taxes	1,204,725	1,204,725	501,736	(702,989)
Rent	50,000	50,000	72,300	22,300
Miscellaneous	101,258	101,258	681,798	580,540
Total Resources (Inflows)	15,475,809	15,475,809	15,454,059	(21,750)
Amounts Available for Appropriation	12,212,510	12,212,510	12,190,760	(21,750)
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature	1,154,015	1,405,842	1,309,030	96,812
General Government	8,222,012	9,010,664	9,607,748	(597,084)
Public Safety	646,399	469,702	468,083	1,619
Public Works	1,341,865	2,232,925	2,344,085	(111,160)
Culture and Recreation	831,360	663,163	644,386	18,777
Health and Sanitation	662,277	662,277	624,037	38,240
Solid Waste Disposal	1,770,000	479,118	138,025	341,093
Human Services and Welfare	214,746	151,449	151,450	(1)
Capital Outlays	83,464	205,315	227,762	(22,447)
Transfer to Other Funds	549,671	195,354	198,897	(3,543)
Total Charges to Appropriations	15,475,809	15,475,809	15,713,503	(237,694)
BUDGETARY FUND BALANCE (DEFICIT), JUNE 30, 2014	\$ (3,263,299)	\$ (3,263,299)	\$ (3,522,743)	\$ (259,444)

The accompanying Notes to Required Supplementary Information are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
 AUTONOMOUS MUNICIPALITY OF SAN LORENZO
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

1. **Budgetary Reporting**

The Budgetary Comparison Schedule - General Fund is presented as Required Supplementary Information in accordance with GASB Accounting Standards Codification Section 1700, *The Budget and Budgetary Accounting*. Formal and legal budgetary control is based upon major classes of expenditures known as functions.

2. **Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures**

	<u>General Fund</u>
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) *Available for Appropriation* from the Budgetary Comparison Schedule (See Page 64)	\$ 12,190,760
Difference – Budget to GAAP:	
GASB 54 Reclasification of Revenue	-
The Fund Balance (Deficit) at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes	<u>3,263,299</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18)	<u>\$ 15,454,059</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) *Total Charges to Appropriation* from the Budgetary Comparison Schedule (See Page 64)	\$ 15,713,503
Difference – Budget to GAAP:	
Non budgetary expenditures (expenditures reclassification GASB 54)	-
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(615,328)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	274,089
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(198,897)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18)	<u>\$ 15,173,367</u>

END OF THIS SECTION

SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM –
 FINANCIAL DATA SCHEDULE (RQ037)
 ENTITY WIDE BALANCE SHEET SUMMARY
 JUNE 30, 2014

COMMONWEALTH OF PUERTO RICO
 AUTONOMOUS MUNICIPALITY OF SAN LORENZO

<u>Line Ited No.</u>	<u>Assets</u>	<u>Value</u>
	Current Assets - Cash:	
113	Cash - Other Restricted	\$ 8,224
100	Total Cash	8,224
	Receivables:	
121	Accounts Receivable - PHA Projects	14,241
124	Accounts Receivable - Other Government	12,300
128	Fraud Recovery	5,462
	Total Receivables, Net of Allowances	
120	for Doubtful Accounts	32,003
150	Total Current Assets	40,227
190	Total Assets	40,227
200	Deferred Outflow of Resources	-
290	Total Assets	\$ 40,227
	Liabilities and Equity	
	Current Liabilities:	
312	Accounts Payable <= 90 Days	2,800
333	Accounts Payable - Other Government	28,260
310	Total Current Liabilities	31,060
300	Total Liabilities	31,060
	Equity:	
511.4	Restricted Net Position	12,371
512.1	Unrestricted Net Position	(3,204)
513	Total Equity / Net Position	9,167
600	Total Liabilities and Equity / Net Position	\$ 40,227

The accompanying Notes to Financial Data Schedule are an integral part of this Supplementary Information.

SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM –
 FINANCIAL DATA SCHEDULE (RQ037)
 PROGRAM REVENUES AND EXPENSES SUMMARY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

COMMONWEALTH OF PUERTO RICO
 AUTONOMOUS MUNICIPALITY OF SAN LORENZO

<u>Line Item No.</u>	<u>Revenues</u>	<u>Value</u>
70600	HUD PHA Operating Grants	\$ 600,030
71100	Investment Income - Unrestricted	124
71500	Other Revenue	38,560
70000	Total Revenues	<u>638,714</u>
<u>Expenses</u>		
Administrative:		
91100	Administrative Salaries	38,853
91500	Employee Benefit Contributions - Administrative	12,998
91600	Office Expense	1,193
91900	Other	8,400
91000	Total Operating - Administrative	<u>61,444</u>
96900	Total Operating Expenses	<u>61,444</u>
Excess of Operating Revenue over		
97000	Operating Expenses	<u>577,270</u>
97300	Housing Assistance Payments	527,408
97350	HPA Portability-In	39,088
90000	Total Expenses	<u>627,940</u>
Excess (Deficiency) of Total Revenue over		
97000	(under) Total Expenses	<u>\$ 10,774</u>
Memo Account Information:		
*11030	Beginning Equity	\$ (92,821)
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$ 91,214
*11170	Administrative Fee Equity	\$ (3,204)
*11180	Housing Assistance Payments Equity	\$ 12,371
*11190	Unit Months Available	1200
*11210	Number of Unit Months Leased	1190

The accompanying Notes to Financial Data Schedule are an integral part of this Supplementary Information.

1. BASIS OF PRESENTATION

The accompanying Financial Data Schedule (FDS) includes the Section 8 Housing Choice Vouchers Program activities of the Autonomous Municipality of San Lorenzo of the Commonwealth of Puerto Rico (Municipality). The information in the FDS is presented in accordance with the requirements of *HUD's Uniform Financial Reporting Standards for HUD Housing Programs*. Because the FDS presents only a selected portion of the operations of Municipality, it is not intended to and does not present the financial position, or change in net position of the Municipality.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality reporting entity is defined in Note (1) (A) to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Assets, Liabilities, Net Assets, Revenues and Expenses reported on the FDS, are reported on the full accrual basis of accounting. They are recognized following the *HUD's Uniform Financial Reporting Standards for HUD Housing Programs*.

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Assets, Liabilities and Net Assets are presented in the Municipality's *Statement of Net Position*. Revenues and Expenses are reported in the *Statement of Activities*.

END OF NOTES

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF SAN LORENZO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Community Facilities Loans and Grants	10.766		\$ 11,719
Pass-Through Puerto Rico Family Department – Administration for the Childhood Care and Integral Development:			
Child and Adult Care Food Program	10.558	CCC-193	<u>80,014</u>
Total U. S. Department of Agriculture			<u>91,733</u>
U.S. Department of Housing and Urban Development:			
Direct Program:			
Section 8 Housing Choice Vouchers Program	14.871		627,941
Pass-Through State – Office of the Commissioner of Municipal Affairs:			
Community Development Block Grant/States Program (SBGP) and Non Entitlements Grants in Hawaii (Stated Administered Small Cities Program)	14.228	2014-005766	1,416,533
Pass-Through Department of Family of the Commonwealth of Puerto Rico:			
Emergency Solutions Grants Program	14.231	N/AV	20,921
Pass-Through Department of Housing of the Autonomous Municipality of San Juan, Puerto Rico:			
Housing Opportunities for Persons with AIDS	14.241	N/AV	<u>74,548</u>
Total U.S. Department of Housing and Urban Development.....			<u>2,139,943</u>
U.S. Department of Justice:			
Pass-Through Department of Justice of the Commonwealth of Puerto Rico:			
Edward Byrne Memorial Justice Assistance Grant Program.....	16.738	2011-DJ-BX-2693	<u>336,526</u>
Total U. S. Department of Justice			<u>336,526</u>

continue

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF SAN LORENZO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<u>FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
U.S. Department of Transportation:			
Direct Program:			
Federal Transit – Formula Grants (Urbanized Area Grant Program.....	20.507		<u>48,969</u>
Total U. S. Department of Transportation.....			<u>48,969</u>
U.S. Department of Education:			
Direct Program:			
Twenty-First Century Community Learning Centers.....	84.287		<u>48,848</u>
Total U. S. Department of Education.....			<u>48,848</u>
U.S. Department of Health and Human Services:			
Pass-Through Office for Elderly Affairs of the Commonwealth of Puerto Rico:			
Special Programs for the Aging – Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	N/AV	51,813
Special Programs for the Aging – Title III, Part C, Nutrition Services.....	93.045	N/AV	20,839
Pass-Through Administration for the Childhood Care and Integral Development:			
Child Care and Development Block Grant.....	93.575	2013-000167-B	<u>567,885</u>
Total U.S. Department of Health and Human Services			<u>640,537</u>
U.S. Department of Homeland Security:			
Pass-Through Puerto Rico Office for Public Security:			
Disaster Grants – Public Assistance	97.036	FEMA 1798, 1946, 4017	<u>1,193,038</u>
Total U. S. Department of Homeland Security.....			<u>1,193,038</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,499,594</u>

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activities of the Autonomous Municipality of San Lorenzo of the Commonwealth of Puerto Rico (Municipality). The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Municipality, it is not intended to and does not present the financial position, or change in net assets of the Municipality.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality reporting entity is defined in Note (1) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies are included on the Schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Government*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- C. Pass-through entity identifying numbers are presented where available.

3. FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Expenditures of federal awards are reported in the Municipality's *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund* in the Other Governmental Funds column.

END OF NOTES



TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Municipal Legislature
Municipality of San Lorenzo

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of San Lorenzo of the Commonwealth of Puerto Rico, (from now on the Municipality) as of and for the year ended June 30, 2014, and the relate notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated March 19, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as item #14-04 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items #14-01 through #14-03, to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs, as items #14-01 through #14-04.

The Municipality's Response to Findings

The Municipality's responses to the internal control over compliance findings identified are described in a separate document (Corrective Action Plan) prepared by the Municipality. The Municipality's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Municipality's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Municipality's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

March 19, 2015

Stamp #E156285 of the
College of CPA's of
Puerto Rico is affixed
to the original.



TORRES, HERNANDEZ & PUNTER, CPA, PSC

Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

To the Honorable Mayor and
Municipal Legislature
Municipality of San Lorenzo

Report on Compliance for Each Major Federal Program

We have audited the Municipality of San Lorenzo of the Commonwealth of Puerto Rico, (from now on the Municipality) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Municipality's major federal programs for the year ended June 30, 2014. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Municipality's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Municipality's compliance.

Basis for Qualified Opinion on the Community Development Block Grant/States Program (SBGP)

As described in the accompanying schedule of findings and questioned costs as item #14-04, the Municipality did not comply with requirements regarding Cash Management that are applicable to the Community Development Block Grant/States Program (SBGP). Compliance with such requirements are necessary, in our opinion, for the Municipality to comply with the requirements applicable to this program.

Qualified Opinion on the Community Development Block Grant/States Program (SBGP)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion Paragraph, the Municipality complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items #14-01 through #14-03. Our opinion on each major federal program is not modified with respect to those matters.

Report on Internal Control Over Compliance

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Municipality's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items #14-03 through #14-05 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #14-04 to be significant deficiencies.

Report on Internal Control Over Compliance (Continued)

The Municipality's responses to the internal control over compliance findings identified are described in a separate document (Corrective Action Plan) prepared by the Municipality. The Municipality's was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

March 19, 2015

Stamp #E156286 of the
College of CPA's of
Puerto Rico is affixed
to the original.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

Part I - Summary of Audit Results:

Financial Statements

The independent auditor's report on the financial statements expressed an unmodified opinion.

Internal Control Over Financial Reporting:

Material weaknesses identified?	<u> X </u> yes	<u> </u> no
Significant deficiencies identified?	<u> X </u> yes	<u> </u> none reported
Noncompliance material to the Statement noted?	<u> X </u> yes	<u> </u> no

Federal Awards

Internal control over major programs:

Material weaknesses identified?	<u> X </u> yes	<u> </u> no
Significant deficiencies identified?	<u> </u> yes	<u> X </u> none reported

The independent auditor's report on compliance with requirements applicable to major federal awards program expressed a qualified opinion.

The audit disclosed findings to be reported in accordance with OMB Circular A-133, Section 510(a).

<u> X </u> yes	<u> </u> no
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Municipality's major awards during the year ended June 30, 2014 were:

CFDA #14.228 - Community Development Block Grant/States Program (SBGP),
CFDA #14.871 - Section 8 Housing Choice Voucher Program,
CFDA #16.738 - Edward Byrne Memorial Justice Assistance Grant Program,
CFDA #93.575 - Child Care and Development Block Grant, and
CFDA #97.036 - Disaster Grants - Public Assistance.

A threshold of \$300,000 was used to distinguish between type A and type B programs, as those terms are defined in OMB Circular A-133, Section 520 (a).

Municipality qualify as a low risk auditee?	<u> </u> yes	<u> X </u> no
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

Part II - Findings Related to the Financial Statements:

FINDING NUMBER 14-01: DOCUMENTS NOT AVAILABLE ON MUNICIPAL EMPLOYEE FILES

CONDITION: We selected twenty-five (25) employee files for examination. We noted the following documents were either not included or not appropriately filed:

1. Employer did not sign and date the certification in section 2 of Form I-9 (1 Employee files),
2. Employee file did not has the birth certificate. (1 Employee File)

CRITERIA: To comply with municipal internal controls related to required documents to be included on employee files and with applicable laws and regulations.

For Form I-9, employers must complete it for all newly hired employees to verify their identity and authorization to work in the United States, including a list of approved documents that employees can present to verify their identity and employment authorization.

CAUSE: The Municipality does not have in operation an appropriate internal control procedure to assure that all these forms are properly completed and included in employee files, and updated periodically.

EFFECT: For Form I-9 the U.S. Citizenship and Immigration Services could perform random inspections and fine from \$100 to \$1,100 per missing I-9 forms and documents and, if the problem is persistent, the fine could increase up to \$11,000 per employee. For form 499 R-4.1 "Withholding Exemption Certificate TD could impose penalties for each employee for which withholdings are being made and for whom the form was not prepared and included in their file.

RECOMMENDATION: The implementation of an internal control procedure requiring a checklist to be reviewed each time an employee is hired, and when an employee file is updated, to assure all required documents are available. Also, to schedule reviews of employee files for updating purposes.

MANAGEMENT RESPONSE: See corrective action plan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

Part II - Findings Related to the Financial Statements: (Continued)

FINDING NUMBER 14-02: REQUIRED CLAUSES NOT INCLUDED ON CONTRACTS

CONDITION: We selected ten (10) contracts for examination. We noted the following required clauses were not included, stating the following:

1. That the Municipality may cancel the contract immediately in case of negligence, abandonment of duty or noncompliance from contracted party (7 Contracts),
2. That a 7% will be retained from every professional service provided to the Municipality. (3 Contracts),
3. That Sub Contractors service should follow the municipal regulation regarding responsibilities and duties (1 Contracts),
4. That the contracted party is not required to satisfy an alimony requirement, and if it is required, contracted party is complying with alimony payments (1 Contracts),

CRITERIA: Sound government management requires disclosure of such information when a contract is prepared in order to safeguard municipal interest. Also, to comply with the following applicable laws and regulations as detailed for each instance above as follows:

Instance 1 -

Article 5, M, Law No. 237 of August 31, 2004, and
Memorandum No. 07-93 from the Office of the Governor of Puerto Rico.

Instance 2 -

Article 5, I, Law No. 237 of August 31, 2004, and
Memorandum No. 07-93 from the Office of the Governor of Puerto Rico.

Instance 3-

Chapter 9, Section 6, OCAM Ruling for Municipal Administration.

Instance 4 -

Article 5, K, Law No. 237 of August 31, 2004, and
Memorandum No. 07-93 from the Office of the Governor of Puerto Rico.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

Part II - Findings Related to the Financial Statements: (Continued)

FINDING NUMBER 14-02: REQUIRED CLAUSES NOT INCLUDED ON CONTRACTS (CONTINUED)

CAUSE: Internal control procedures to assure that contracts include all clauses required by laws and regulations were not effective enough during this fiscal year. Contracts were not properly verified by the officials preparing them to assure this information was contained in contracts before signature.

EFFECT: The Municipality is not properly safeguarded.

RECOMMENDATION: To strengthen present control procedures to assure all contracts prepared contains all the necessary clauses and information, as required by present laws and regulations, and by state and federal agencies.

MANAGEMENT RESPONSE: See corrective action plan.

FINDING NUMBER 14-03: CONTRACTS NOT SEND TO COMPTROLLER'S OFFICE WITHIN THE REQUIRED TIME LIMITS

CONDITION: Three (3) contract of a sample of ten (10) examined was not submitted to the Comptroller's Office of Puerto Rico, as required by Ruling #33, dated September 15, 2009, as amended.

CRITERIA: To comply with Ruling #33 from Comptroller's Office, Article 8(b) and as an appropriate internal control procedure, all contracts must be submitted to the Comptroller's Office within fifteen (15) days after awarded or after amended.

CAUSE: Municipality's internal control procedure to assure that all contracts were send to the Comptroller's Office within the period of time required, was not effective enough during this fiscal year.

EFFECT: The Municipality is not in compliance with the Ruling #33 from Comptroller's Office.

RECOMMENDATION: To implement a control procedures in order to send contracts to the Comptroller's Office within fifteen labor days after signed by parties, or after amended, as required by law.

MANAGEMENT RESPONSE: See corrective action plan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

Part III - Findings and Questioned Costs Related to Federal Awards:

Presentation follows compliance requirements included in the Compliance Supplement of OMB Circular A-133 "Audits of States, Local Governments, and Non-profit Organizations".

A - Activities Allowed or Unallowed

No Conditions Detected.

B - Allowable Costs/Costs Principles

No Conditions Detected

C - Cash Management

FINDING NUMBER: 14-04: FEDERAL ASSISTANCE NOT USED TO COVER IMMEDIATE EXPENDITURES

FEDERAL PROGRAM: CFDA #14.228 - Community Development Block Grant/States Program (SBGP)

CONDITION: The Municipality maintained cash resources from its Community Development Block Grant/States Program (SBGP) in excess of amounts immediately necessary for its operations, and in one instance it used such excess funds for its own general operations, in violation of the program's applicable federal regulations.

CRITERIA: Notice PIH 2011-67 states that Disbursements will continue to be schedule to arrive at PHA's bank on the first business day of which is the date on which PHA's issue their Housing Assistance Payments checks to property owner. This schedule ensures that PHS's do not receive advances from HUD for more than each PHA's immediate disbursement need.

CONTEXT: We selected three deposits received by the Municipality during the year. Then we verified the checks disbursed beginning the same date of the amount deposited. We verified the time frame used by the Municipality to disburse all the amount deposited and determine if the Municipality is in compliance with the cash management requirement. Also, we verified the bank accounts in order to determine if the amount on bank is reasonable or not.

CAUSE: Municipality submits a request of federal funds to federal agency and takes more than 3 (three) days to expend the funds. Therefore, the Municipality's internal control procedures to comply with this requirement were not effective enough during fiscal year 2013-14.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)

C - Cash Management (Continued)

FINDING NUMBER: 14-04: FEDERAL ASSISTANCE NOT USED TO COVER IMMEDIATE EXPENDITURES (CONTINUED)

EFFECT: The federal programs department is requesting funds in excess of the immediate expenditures incurred or their immediate program needs, not complying with 45 CFR, Part 74, Subpart C, Section 74.21, mentioned above.

RECOMMENDATION: To strengthen the system for requesting federal funds to be adequate enough to satisfy immediate expenditures incurred by each federal programs, and to avoid maintaining excessive cash balances in bank accounts. Also to assure that each disbursement is identified to specific needs detailed on funds request.

QUESTIONED COSTS: None.

MANAGEMENT RESPONSE: See corrective action plan.

D - Davis - Bacon Act

No Conditions Detected.

E - Eligibility

No Conditions Detected.

F - Equipment and Real Property Management

No Conditions Detected.

G - Matching, Level of Effort and Earmarking

No Conditions Detected.

H - Period of Availability of Federal Funds

No Conditions Detected.

I - Procurement and Suspension and Debarment

No Conditions Detected.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)

J - Program Income

No Conditions Detected.

K - Real Property Acquisition and Relocation Assistance

No Conditions Detected.

L - Reporting

No Conditions Detected

M - Subrecipient Monitoring

N/A

N - Special Tests and Provisions

No Conditions Detected

(1) Audit Findings that have been Fully Corrected:

FISCAL YEAR 2013

Finding Number	2013-001 2013-008	Disbursements without the required authorization and signature from the Pre-Intervention personnel. Municipality issued checks without the required authorization and signature from the Pre-Intervention personnel.
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CFDA Numbers	N/A
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Questioned Cost	None
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Status	Corrected
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Finding Number	2013-005	Allowable Costs Municipality issued an incorrect duplicate payment to a contractor under its Disaster Grants – Public Assistance program.
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CFDA Numbers	97.036
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Questioned Cost	None
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Status	Corrected
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Finding Number	2013-007	Special Test and Provisions Municipality's Section 8 Housing Choice Voucher program's (Section 8 Program) Administrative Reserve account finished the fiscal year ended June 30, 2013 with a negative balance totaling (\$92,821).
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CFDA Numbers	14.871
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Questioned Cost	None
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Status	Corrected
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FISCAL YEAR 2012

Finding Number	2012-003	Special Test and Provisions Municipality's Section 8 Housing Choice Voucher program's (Section 8 Program) Administrative Reserve account finished the fiscal year ended June 30, 2012 with a negative balance totaling (\$15,795).
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CFDA Numbers	14.871
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Questioned Cost	None
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Status	Corrected
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(1) Audit Findings that have been Fully Corrected (Continued):

FISCAL YEAR 2012

Finding Number	2012-006	Allowable Costs Municipality disbursed funds from Federal Transit program without proper documentation of procurement procedures and without the required review and authorization of its pre-intervention personnel.
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CFDA Numbers	20.500
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Questioned Cost	None
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Status	Corrected
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Finding Number	2012-007	Allowable Costs Municipality disbursed funds from the Disaster Grants – Public Assistance programs without proper documentation of procurement procedures and without the required review and authorization of its pre-intervention personnel.
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CFDA Numbers	97.036
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Questioned Cost	None
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Status	Corrected
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(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2013

Finding Number	2013-002	Activities Allowed and Unallowed Municipality used cash resources from its Community Development Block Grant – Section 108 Loan Guarantee program funds for its own general operations, in violation of the program's loan agreement and applicable federal regulations.
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CFDA Numbers	14.248
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Questioned Cost	None
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Status	Not Corrected situation continue with other Federal Program Fund
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Finding Number	2013-003	Activities Allowed and Unallowed and Cash Management Municipality maintained cash resources from its Community Development Block Grant/States Program in excess of amounts immediately necessary for its operations and in one instance it used such excess funds for its own general operations, in violation of the program's applicable federal regulations.
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(2) Audit Findings not Corrected or Partially Corrected (Continued):

CFDA Numbers 14.228
Questioned Cost None
Status Not Corrected

Finding Number 2013-004 **Activities Allowed and Unallowed**
Municipality used cash resources from its Disaster Grants -- Public Assistance's cash account as temporary loan transfers to its General Fund to cover cash deficiencies in its general operations, in violation of program regulations.

CFDA Numbers 97.036
Questioned Cost \$105,549
Status Not Corrected situation continue with other Federal Program Fund

Finding Number 2013-006 **Activities Allowed and Unallowed**
Municipality used cash resources from its Section 8 Housing Choice Voucher program (Section 8 Program) for its own general operations, instead of crediting such resources owed by the program to the Municipality.

CFDA Numbers 14.871
Questioned Cost None
Status Not Corrected

FISCAL YEAR 2012

Finding Number 2012-001 **Activities Allowed and Unallowed and Cash Management**
Municipality used cash resources from its Community Development Block Grant -- Section 108 Loan Guarantee program funds for its own general operations, in violation of the program's loan agreement and applicable federal regulations.

CFDA Numbers 14.228
Questioned Cost None
Status Not Corrected

Finding Number 2012-002 **Activities Allowed and Unallowed**
Municipality used cash resources from its Section 8 Housing Choice Voucher program (Section 8 Program) for its own general operations, instead of crediting such resources owed by the program to the Municipality.

CFDA Numbers 14.871
Questioned Cost None
Status Not Corrected

(2) Audit Findings not Corrected or Partially Corrected (Continued):

Finding Number	2012-004	Activities Allowed and Unallowed Municipality could not provide a written authorization from the pass-through entity for the request, receipt and use of \$173,787 in Homeless Prevention and Rapid Rehousing Program (HPRP) funds to cover administrative costs.
CFDA Numbers	14.257	
Questioned Cost	None	
Status	Not Corrected	